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Comment letters on Proposed Statement on Auditing Standards: Audit Documentation

American Institute of Certified Public Accountants. Auditing Standards Board

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kwestphal@williamsc
pas.com

07/02/01 09:33 AM
Please respond to
kwestphal

To: gfischbach@aicpa.org
cc:
Subject: Exposure Draft on Documentation

Regarding the following section of the exposure draft:

For auditing procedures that involve inspection of documents or confirmation of balances, requires audit

documentation to include an identification of the items tested and, where appropriate, abstracts or copies of documents such as significant contracts or agreements. (In a current standards-setting project, the ASB is considering documentation requirements for other types of auditing procedures.)

It does not seem necessary to require an auditor to maintain copies of client documentation such as contracts or agreements. It should be sufficient for the auditor to reference them and summarize or note their contents. Extent of hard copy documentation should be left to the auditor's judgement.

Kent J. Westphal, CPA



Alga@AlgaCPA.com

07/07/01 11:26 AM

Please respond to

Alga

To: gfischbach@aicpa.org

CC:

Subject: Documentation standards - ED

This is long overdue.

Documentation is the top problem found in peer reviews. The canned programs (even the AICPA's) provide for covering auditor's conclusions and professional judgments, but the problems come from the documentation in the form of schedules to support those professional conclusions.

I agree AU 339 does not give enough specific guidance on audit risk. We've had the expectation gap standards for years, and yet AU339 has a 1960's look and feel.

With the new model management rep letter, I find few auditors keep papers in the file on accumulated unadjusted differences (on passed prior immaterial adjustments that are aggregating close to materiality limits). These sorts of documents are missing, I would say, in probably 99% of the engagement files today. I really favor your amendment in Appendix B - SAS 47 par 40.

What would be so helpful for the profession is for you guys to put model sample papers in the appendices and in the AICPA AAM, especially for how analytical procedures affect risk in the planning stage and drive construction of the audit approach and timing. Your approach is more on substantive analytical review. I find Appendix B page 15 top confusing.

What if analytical review does not collaborate expectations? That is not a substantive procedure, it is a risk driver. Why call it substantive? It should call other procedures to reduce the risk, until the expectation is immaterial enough to be blessed by a clean opinion.

It is difficult on peer review to distinguish how analytical review and risk assessment impacted audit efficiency. It appears that the profession is greatly overauditing. Sometimes canned programs are run, giving overkill, yet pressure is on reviewers to writeup omissions, because there is little guidance on sufficiency of audit evidence (in the working papers).

As far as paragraph 17 on going concern, in a dot.com world, I don't believe it goes far enough. LLCs have really added liability exposure to the profession. When the AICPA puts horror stories about e-sites

losing share value from availability failures in its graded assurance services courses, I wonder, don't we need to protect ourselves more in the non-financial attestation arena from teenage of service attacks. My point is that going concern even enters non-financial services that we render. This kind of going concern (not based on the balance sheet or historic operating results) might place expectation on us to warn of dot.com failures at continuous auditing speed. Assurance services are being labeled as "auditing" level services. We need to do a lot more in the evolution and in the thinking of these issues.

Well, keep up the good work. This is long overdue.

I wish you the best,
James M. Alga, CPA

7/11/01

To the Auditing Standards Board

The Board should be commended for recognizing that the time has come for a standard that prescribes clear requirements beyond what presently exists for audit documentation. Nevertheless, as practitioners and peer reviewers, each with many years of experience, we would like to share some specific concerns about the proposed standard.

Our experience tells us that the extent of audit documentation ordinarily required by many firms' policies and cultural practices is driven more by a strategy perceived to afford protection in possible future litigation than a desire to meet the objectives articulated in paragraph 3 of the proposed standard. We believe, therefore, that the standard should set forth clearly what constitutes minimum documentation criteria without specific, detailed requirements that would have the effect of totally removing from the equation judgment and the ability of individual firms to select from available protective strategies. We also believe that such a standard should be supplemented by less authoritative guidance that would enable practitioners to consider alternative documentation policies and practices with a better appreciation of the risks and other issues involved than is presently available in the literature. Several of our specific recommendations included below are based on this principle.

For example, we believe there should be some specific supplemental, nonauthoritative guidance relating to documentation as to timing of procedures. It is not uncommon for many firms to use month/year date sign-offs on workpapers, both as to preparation and review, and audit programs. The guidance should suggest that that this is a dangerous practice (because it could be viewed in litigation as a deliberate attempt to conceal a material fact) and especially problematical on critical workpapers. The supplemental guidance should make it clear that to understand the nature and degree of supervision and review evidenced in a file, a specific date reference sign-off may be needed.

Another concern we have is a need for supplemental, nonauthoritative guidance with regard to conclusions on specific workpapers. Such guidance should suggest that conclusions can be very troublesome and problematic in litigation. It should suggest that readers of many individual workpapers ordinarily should be able to infer a conclusion, unless a mathematical or statistical conclusion is warranted. Also, a conclusion might be warranted for an analytical test used as a primary substantive procedure as well, since such a procedure should be as precise as a statistical test, and, in such instances, a range of values ordinarily should be able to be determined by the analytical technique (as provided in SAS 56, *Analytical Procedures*, para. 20).

If a conclusion is to be stated on an individual document or series of documents, in circumstances such as in para. 9 of the proposed standard, the guidance should suggest that the conclusion should be worded such that the understanding of the purpose of the test has been accomplished. Wording such as "based on our procedures, we have determined that the risk of

material misstatement has been reduced to an acceptably low level" is acceptable. What we see many times in practice are statements like "the accounts receivable are reasonable" or are "presented fairly". Such language is generally stronger than the audit opinion and may be viewed in litigation as some kind of assurance greater than ever intended or supportable. Some caution should be included, perhaps, even in the standard, to warn practitioners about the improper use of conclusions, and to use care when wording a conclusion.

We believe the supplemental guidance should contain language discouraging retention of unnecessary and excessive copies of client records that have been examined and are easily retrievable, if needed, from client files. (Retrievability is mentioned in footnote 6 of the proposed standard as a possible consideration as to the extent of documentation retained, but further guidance may be necessary.)

One other similar issue comes to mind. Many firms still retain review notes of issues that have been raised and appropriately addressed. They believe that such documentation evidences proper supervision and review. Supplemental guidance should make it clear that this level of documentation is ordinarily unnecessary to achieve the objectives of audit documentation, therefore, extraneous, and often damaging in litigation.

The suggestion in paragraph 4 of the proposed standard that the "auditor should be aware that inspection procedures may be used to evaluate ..." appears to be unduly lecturing and has no place in a professional standard as there is no way to determine his/her awareness and, therefore, measure performance against it. Perhaps this notion can be more effectively incorporated in supplemental guidance. The second sentence in footnote 4 appears entirely unnecessary and confusing. It should be deleted.

Footnotes 2 and 5 of the proposed standard make vague, unexplained references to some "other means" to support the audit report besides documentation. We believe these references provide, by implication, an unwarranted "escape hatch" enabling noncompliance with the standard and, therefore, should be deleted.

Paragraph 9 requires the auditor to "consider" certain factors in deciding the nature and extent of necessary documentation. Once again, although the auditing standards are laden with such language, in this instance, without a requirement to document his/her considerations (which we think would be "overkill" and do not recommend), it is impossible to determine what the auditor considered and, therefore, measure his/her performance against such a standard. So we recommend that for each bulleted item, that the standard either describe circumstances that would lead to inclusion or exclusion of such item(s) in the workpapers, or that paragraph 9 be relegated to the supplemental, nonauthoritative guidance we are recommending.

We believe the requirement proposed in paragraph 12 to adopt "reasonable" procedures to protect audit documentation from unauthorized access needs to be supplemented with some guidance to be useful and effective as a standard.

Lastly, the language in paragraph 14 is weak and does not appear to have any place in an auditing standard. We believe that sufficient guidance as to such matters may be found in the

AICPA *Code of Professional Conduct* and that if it need be mentioned here, it should be only by reference to that literature and not with new language.

We would be glad to provide further comment on the matters discussed above. Thank you for your consideration.

Julian Jacoby CPA, MBA
Accounting and Auditing Director
Horwath International
212/838-5566
In collaboration with

Howard B. Levy CPA
Director of Technical Services
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Co-authors, *Horwath International Audit Manual*

Y A L E & C O M P A N Y

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Gretchen Fischbach
Audit and Attest Standards
File 1861
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement on Auditing Standards: Audit Documentation

Dear Ms. Fischbach:

I believe the Proposed Statement on Auditing Standards regarding Audit Documentation goes a long way in limiting those circumstances where the support for the auditor's report is not contained in audit work papers or audit documentation.

In my experience, accountants, in the defense of alleged malpractice, have read ambiguity into Statement on Auditing Standards No. 41 that was not intended. While audit work papers have been the principal form of support for the auditor's report, arguments have been made and testimony has been provided, that significant audit evidence need not be contained in audit work papers.

Because work papers were only the principal support and audit judgment concerning the quantity, type and content of working papers is legitimate, the reasoning was that the absence of documentation in audit work papers was not conclusive evidence that procedures had not been performed.

Such arguments, in my experience, have often been a prelude to further testimony that certain undocumented procedures were applied to material items in support of a report. And because these undocumented procedures were performed, there was no negligent behavior.

I believe the proposed standard, by specifying a broader array of items that should be documented and identifying factors that should be considered in determining the nature and extent of documentation, has largely removed the perceived ambiguity of SAS No. 41. I also believe additional language should be added to the Proposed Statement on Auditing Standards that acknowledges that while other means of report support are permissible, material support or support of material items considered by the auditor in formulating the auditor's report should be included in audit documentation.

Thank your for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Gordon Yale", with a stylized flourish at the end.

Gordon Yale

CY: mm



New
Hampshire
Society of
Certified
Public
Accountants

TO: Gretchen Fischbach
Technical Manager

FROM: Anne Solitro
Executive Assistant

DATE: July 25, 200`

RE: **Comments on Exposure Draft "Proposed Statement on
Auditing Standards and Statement on Standards for
Attestation Engagement – Audit Documentation.
To supercede Statement on Auditing Standards #41
Working Papers, with accompanying amendments.**

Please find the attached comments from our Accounting & Auditing Task
Force Chair, Ed O'Reilly, CPA, on the above-mentioned Exposure Draft.

1750 Elm Street, Suite 403

Manchester, NH 03104

Phone 603-622-1999

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E-mail: info@nhscpa.org

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ams

Attachment

Ed O'Reilly CPA
704 Hevey St.
Manchester NH 03102
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eoreilly3@juno.com

Anne Solitro,
Executive Assistant
New Hampshire Society of CPAs
1750 Elm St.; Suite 403
Manchester NH 03104

July 17, 2001

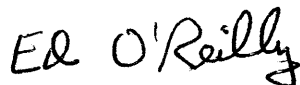
Dear Anne,

Regarding invitation to comment on Exposure Draft ..Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagement - Audit Documentation. To supersede Statement on Auditing Standards #41 Working Papers, with accompanying amendments.

Basically provides guidance for professional judgment needed for compliance with professional standards. These standards include but are not limited to audit documentation. As the page 5 summary states, SAS #41 working papers have not been changed since 1967. That fact in itself does not mandate change, however, the Accounting Standards Board felt a need for an updated framework for practitioners. Under the '...what it does' department, a change in term from *working papers* to *audit documentation* is simple enough and easily understood. Reminders as to inspection procedures, written audit programs, experience and knowledge necessary to understand the nature, timing and extent of audit procedures are included in this proposed statement. Copies of appropriate and significant documents, and, the all important, 'auditors judgment' for the basis of conclusions reached.

The reasonableness of this change along with the thought of a cost benefit relationship to implement said change, will, of course, move this exposure draft one direction or the other. Nothing came to my attention that would preclude this proposed statement from becoming effective on or before the application date. Should you have any questions regarding anything in this comment, please call me anytime at 627-2255.

Very Truly Yours



Ed O'Reilly CPA
Chair, A & A Task Force
NHSCPA's



gboaz2@mail.state.tn.us

08/14/01 05:48 PM

To: gfischbach@aicpa.org
cc: ahayes@mail.state.tn.us, cbridges@mail.state.tn.us,
eburr@mail.state.tn.us, kpoynter@NASACT.org
Subject: Re: AICPA ED, "Audit Documentation"

Ms. Fischbach,

Our comments on the AICPA ED, *Audit Documentation*, is attached. Please notify me if you have any questions or comments.

Sincerely,



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697
FAX (615) 532-2765**

August 13, 2001

Gretchen Fischbach,
Audit and Attest Standards
File Reference No. 1861
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Fischbach:

On behalf of the Department of Audit we would like to thank you for the opportunity to comment on the Exposure Draft, *Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements, Audit Documentation*.

We support the provisions of this proposed statement. We believe it provides an updated framework for performing financial statement audits. We do, however, question the use of the new term "audit documentation" in place of "working papers." Everyone is familiar with working papers, whether paper or electronic. Was the audit documentation term meant to be more expansive based on possible future communication media? Also, will it provide the AICPA a more effective means of building on the new framework in the future?

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz or me at (615) 741-3697.

Sincerely,

Arthur A. Hayes, Director
Division of State Audit



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August 17, 2001

Ms. Gretchen Fischbach
Audit and Attest Standards, File 1861
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Fischbach:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the AICPA Auditing Standards Board's (Board) Exposure Draft (ED) of the proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements entitled *Audit Documentation*. This proposed guidance is intended to provide an updated framework within which the auditor can exercise professional judgment in determining the nature and extent of audit documentation needed to comply with professional standards.

The FMSB, comprised of 21 members with accounting and auditing backgrounds in federal, state, and local government, academia, and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are encouraged to comment separately.

The FMSB supports the proposed guidance contained in the ED. It believes that this proposed Statement will indeed provide an updated framework for auditors, enhance the consistency of audit documentation, and allow internal and external quality control/peer reviewers to better judge the quality of audit performance. However, the FMSB does have the following six comments for consideration by the Board in completing the final document:

1. Footnote 1 on Page 8 of the ED states "*Audit documentation* also may be referred to as *working papers*." Because the Board specifically replaced the term "working papers" with the term "audit documentation," not only to recognize changes in the auditing environment, but also to provide an updated framework for auditors, the FMSB suggests that the Board revise Footnote 1 slightly to read, "*Audit documentation* was previously referred to as *working papers*." For consistency, a similar revision is needed in the proposed attestation standards (Footnote 20 on Page 16).



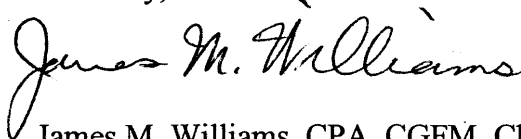
2. Footnote 2 also on Page 8 of the ED states "...there is no intention to imply that the auditor would be precluded from supporting his or her report by other means in addition to audit documentation." Although this guidance has been brought forward from the current standards, the FMSB has two concerns with this footnote. First, it appears to contradict the guidance contained in Paragraphs 1. and 3.a., which states that audit documentation constitutes the "principal record" and "principal support" of the auditor's work. The FMSB believes that, if the auditor does ever support his or her report "by other means," those other means should at least be referenced in the audit documentation. Second, the footnote offers no explanation or examples of how the auditor might support his or her report "by other means." Because of these concerns, the FMSB suggests that the Board delete Footnote 2 in the final document. However, if the Board elects to retain the footnote, we suggest that it clarify how the auditor might support his or her report "by other means," perhaps with an example(s). For consistency, a similar deletion or clarification is needed in the proposed attestation standards (Footnote 21 on Page 16).
3. Footnote 6 on Page 10 of the ED cautions that "The auditor also may want to consider the retrievability of entity records and documents when determining the nature and extent of documentation." It is unclear whether this footnote is intended to caution the auditor about electronic documents, paper documents with short retention periods, or both. The FMSB suggests that the Board clarify what the auditor needs to consider in Footnote 6, perhaps by including specific examples.
4. Paragraphs 12-14 on Page 11 of the ED provide guidance on the ownership and confidentiality of audit documentation. However, these paragraphs do not address the issue of states' public information (freedom of information) statutes that continually affect auditors at all levels of government. The FMSB suggests that the Board expand the guidance contained in Paragraph 12-14 to specifically address (perhaps through a footnote) the impact of public information statutes on the confidentiality of audit documentation.
5. Paragraph 15 also on Page 11 of the ED states "This Statement is effective for audits of financial statements for periods ending on or after June 15, 2002. Earlier application is permitted."

Because this proposed Statement is intended to assist the auditor by providing an updated framework within which to use his or her professional judgment, the FMSB believes that earlier application should be encouraged, not merely permitted. Therefore, it suggests that the Board revise the second sentence of Paragraph 15 to read "Earlier application is encouraged."

6. The first sentence in Paragraph 7 on Page 15 of the ED explains the proposed amendment to SAS No. 59 by specifically listing the four items that the auditor is required to document. Even with proper punctuation, this sentence may be confusing to the reader because it is more than six lines in length. If this sentence is retained in the final document, the FMSB suggests that the Board further clarify this explanation by numbering the four items, to read: "The following...amendment adds a requirement to SAS No. 59 for the auditor to document (1) the conditions or events that led him or her to believe that there is substantial doubt about the entity's ability to continue as a going concern, (2) the work performed in connection with the auditor's evaluation of management's plans, (3) the auditor's conclusion as to whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, and (4) the consideration and effect of that conclusion on the financial statements, disclosures, and audit report."

Again, the FMSB appreciates the opportunity to provide comments on this ED. If you have any questions, or desire further details on FMSB's position, please contact me at (216) 583-8276 or james.williams17@ey.com, or Jon Wise, its facilitator for this project, at (517) 334-8060, Ext. 500, or WiseJ1@state.mi.us.

Sincerely,



James M. Williams, CPA, CGFM, Chair,
AGA Financial Management Standards
Board

C: Mr. Richard V. Norment, CGFM
AGA National President



Marc.Ford@accaglobal.com

08/22/01 05:46 AM

To: gfishbach@aicpa.org
cc: david.york@accaglobal.com
Subject: ACCA response to exposure draft

Important. This E-mail is intended for the above-named only. It may contain privileged and/or confidential information. If it has come to you in error, please notify the sender immediately. You should not copy this E-mail, disclose its contents to anyone else, or take any action based on it.

Dear Gretchen,

I attached David York's response to your exposure draft "Proposed statement on auditing standards and statement on standards for attestation engagements"

<<ACCA response to AICPA ASB ED re SAS41.doc>>

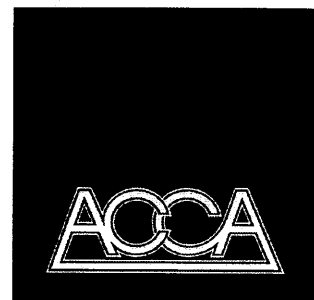
Best regards

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ACCA response to AICPA ASB ED re SAS41.doc

Consultation Response



AUDIT DOCUMENTATION

Proposed Statement on Auditing Standards and Statement on Standards for
Attestation Engagements

Comments from the Association of Chartered Certified Accountants

August 2001



ACCA is the largest global professional accountancy body, with nearly 300,000 members and students in 160 countries. ACCA's headquarters is in London and it has 31 staffed offices around the world. ACCA's mission is to provide quality professional opportunities to people of ability and application, to be a leader in the development of the global accountancy profession, to promote the highest ethical and governance standards and to work in the public interest.

Further information on ACCA is available on ACCA's website, www.accaglobal.com



General Comments

- 1 The Association of Chartered Certified Accountants (ACCA) is pleased to have the opportunity to comment on the *Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements - Audit Documentation* (the exposure draft) issued for comment by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA).
- 2 We applaud the decision of the AICPA ASB to provide, as part of the exposure draft, a comprehensive tabulation and summary of the proposed changes. This, undoubtedly, has greatly assisted those seeking to comment on the proposals. However, there is no overall justification for the proposals other than to recognise the 'changes in the auditing environment in recent years'.
- 3 In preparing and updating its strategic plan, *Horizons for the Auditing Standards Board: Strategic Initiatives Toward the Twenty-First Century*, ASB listed the many recommendations to improve auditing which had been addressed to the profession during the years since SAS 41 was last significantly changed. ASB's strategic initiatives and related action plans have been developed in response to the recommendations and identified trends.
- 4 It is apparent that the exposure draft has been heavily influenced by recommendations of the Panel on Audit Effectiveness (the Panel). Many of the Panel's recommendations suggest the need to critically examine existing auditing standards, with the objective of revising or replacing

some or all of them with more specific and definitive guidance containing imperatives to guide auditors in formulating their judgements and carrying out their work. In approximately 15% of the key areas examined by Panel reviewers, the reviewers did not agree that the documentation of the substantive tests and their results was appropriate. The Panel reviewers sought for working papers which included sufficient information to enable someone else to replicate the original work and understand the nature of the evidence examined.

- 5 A further major change in the auditing environment in recent years has been the accelerating pace of movement towards the internationalisation of auditing standards. The International Organization of Securities Commissions is considering whether international auditing standards promulgated by the International Federation of Accountants' International Auditing Practices Committee (IAPC) might serve as an appropriate set of standards for auditors to use when auditing financial statements used in offerings involving cross-border financings. The European Union is developing its strategy to ensure that International Standards on Auditing (ISAs) are adopted by all member states.
- 6 These two major influences could give rise to tension as ISAs are currently perceived as being less specific than US auditing standards and therefore evoke concerns about preserving audit quality.
- 7 The exposure draft in several instances goes beyond the requirements of existing ISAs. While we would not seek to use this as the sole argument against change, it calls for consideration of the issues raised for those instances where this is the case. Conversely, some possibilities for harmonisation with ISAs have not been approached by the exposure



Page 3

draft. Our comments on these specific matters are addressed within the next section of this response.

Specific Comments

- 8 We support the change of title from 'Working Papers' towards that of the equivalent international pronouncement. However, given that the title of ISA 230 is 'Documentation', we suggest that it would be more appropriate to rename SAS 41 without referring to the word 'audit'.
- 9 No specific documentation requirement is proposed for the auditor's consideration of independence. It is possible that this is to be addressed in a future or amended SAS, but in view of its importance, we feel justified in questioning this omission at this stage.
- 10 Paragraph 8 of the exposure draft proposes that audit documentation should enable a reviewer to form an understanding from the information contained therein. The equivalent international standard envisages that the reviewer will ordinarily form an understanding through examination of documentation and discussion with the auditor. It is our view that discussion is ordinarily necessary to form an understanding and so it would place an unrealistic expectation on the preparers of documentation if this proposal were retained in the final pronouncement.



- 11 Paragraph 10 seeks to introduce a requirement to retain copies or abstracts of documents examined. This requirement would only increase the size of the audit file without commensurate benefit as no additional evidential matter is involved. The custody of significant documents, such as contracts, is the responsibility of the client. The auditor may have access to such documents as necessary. Even if such documents were considered to be potentially relevant for peer review purposes, a reviewer would not be able to verify their authenticity without reference to external sources. Accordingly, their true value for peer review is minimal.



ARTHUR ANDERSEN

Ms. Gretchen Fischbach
Audit and Attest Standards
File 1861
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Arthur Andersen LLP
33 West Monroe Street
Chicago IL 60603-5385

August 22, 2001

Dear Ms. Fischbach:

We appreciate the opportunity to comment on the proposed Statement on Auditing Standards (SAS) and Statement on Standards for Attestation Engagements, *Audit Documentation* (Exposure Draft).

We support the need for a substantive revision of SAS 41 *Working Papers* to modernize the standard and make those changes that will, in fact, drive an improvement in audit quality. We are in agreement with the concerns expressed by some parties that the failure of the working papers to contain relevant information on the disposition of identified significant audit risks is a problem. To the extent the revised standard can influence the auditors' response to identified risks through documentation, audit quality will be improved. The Exposure Draft attempts to address this concern in paragraphs 9 and 11 and while we have some substantive suggestions - we are in agreement with the intent of those paragraphs.

We agree with the objectives of audit documentation as outlined in paragraph 3. Unfortunately, it appears that the Auditing Standards Board (the Board) believes there are other objectives to audit documentation. The Exposure Draft includes attempts to weave those other objectives into the standard via footnotes and references to the quality control standards and other matters. In particular, we have significant reservations about the inferences of footnote 3, paragraph 4 and portions of paragraph 8.

We are also significantly concerned that, for unknown or at least unstated reasons, the Board believes that audit quality will be enhanced by including in the Exposure Draft what is in substance a reperformance requirement. The requirements in paragraph 10 set forth a reperformance objective. No evidence has been introduced to our knowledge that a reperformance standard improves audit quality and in fact, when the Board debated the issue of reperformance, in an open Board meeting, it was rejected by a wide margin. We cannot therefore understand why the Board chose to include the requirements of paragraph 10 in the Exposure Draft.

We believe the multiple objectives of audit documentation, explicit and implied, combined with the partial reperformance requirements introduced in the Exposure Draft will not increase the quality of audits but rather create substantial opportunities for second-guessing the auditor's judgment and will be burdensome to implement.

Accordingly, we do not support the approval and issuance of this Exposure Draft as a final standard. We have expanded on our concerns and recommendations below.

Significant Issues

Objectives of Audit Documentation

The objectives of audit documentation are set forth in paragraph 3 and relate primarily to supporting the audit opinion and aiding in the conduct and supervision of the work. We agree with those objectives as presented. However, we also note that paragraph 5, related to the relationship of audit documentation to the fieldwork standards, and paragraph 8, related to the ability of a reviewer to understand the nature, timing, extent and results of procedures as well as the evidence obtained, present further "objectives" that appear to expand on the purpose of and need for creating audit documentation. In addition, guidance in paragraphs 9 and 11 provide further audit documentation considerations based on the nature of the engagement and the issues or risks expected or identified. We believe the combination of guidance in all of these paragraphs presents the auditor with many separate, confusing or even conflicting objectives.

We are most concerned that paragraph 8 tacitly creates the basis for a substantial reperformance standard. If the intention of the Board is to achieve this result, the objectives set forth in paragraph 3 should be amended and the rationale for this objective included in the standard. Alternatively, if that is not the intention, we recommend deleting this paragraph as it is inconsistent with the objectives and guidance in paragraphs 3, 9, and 11.

Content of Audit Documentation

We believe the requirement in paragraph 10, to document some items tested and copy some documents read during the audit, will not be effective in improving the quality of audits. Requiring specific documentation at this level of detail (1) is inconsistent with the introductory statement that "...The quantity, type, and content of audit documentation are matters of professional judgment", (2) is not necessary to support the audit report or standards of fieldwork, and (3) will likely force the auditor to spend significant, additional time in documenting and reviewing to ensure compliance with the standard. We also do not view the footnote to this paragraph as helpful. By using terms such as "may be satisfied" and "for example", the Board's intentions of when and how to apply the additional documentation requirement remains unclear.

We question the need to provide selective guidance with respect to only those tests described (inspection of documents and confirmation of balances) without also addressing how to document the results of other audit procedures such as observation, inquiries, reperformance, walkthroughs, and so on.

The introduction to the Exposure Draft states that the Board plans to consider the need for specific documentation requirements. Given the current efforts of international and U.S. standard-setters related to redefining the audit risk model, financial statement assertions and linkage, as well as revisiting SAS 82 *Consideration of Fraud in a Financial Statement Audit*, we strongly recommend that the Board defer including any specific documentation requirements in this standard until those projects are more substantively developed.

Therefore, we strongly recommend deleting paragraph 10 and the related footnote.

Relationship to Statements on Quality Control Standards

Paragraph 4 of the Exposure Draft refers to the existence and relevance of the Statements on Quality Control Standards in relation to audit documentation and warns the auditor that "...review of audit documentation is an inspection procedure" under those standards. We believe this paragraph implies that there is a purpose for audit documentation other than to perform the audit in compliance with generally accepted auditing standards (GAAS). We are concerned that an audit could be deemed inadequate even when the work performed was sufficient to meet GAAS requirements and the opinion was appropriate.

We believe it is important to maintain separate audit standards and quality control standards. We are concerned that linking compliance with quality control standards to meeting audit documentation requirements raises unnecessary GAAS compliance issues. For example, if the audit documentation meets the objectives stated in paragraph 3 but not the objectives of quality control standards referenced in paragraph 4, we believe this may be a deficiency with respect to the quality control standards but it should not be deemed a GAAS deficiency. Based on the language in paragraph 4 and footnote 4 to paragraph 8, it appears that a deficiency in meeting quality control standards has been determined to be a violation of GAAS.

Therefore, we recommend deleting references to quality control standards, including paragraph 4, related footnote 3, and references in footnote 3 to those involved in the auditing firm's inspection program and peer review process.

Other Comments

In addition to the above issues and recommendations, we offer the following additional comments for your consideration.

Objectives of Audit Documentation

Paragraph 3 Footnote 2. The footnote states that support for the audit report may not exist in the audit documentation. We recommend that the Board expand this explanation to provide examples of what additional support (both form and location) are considered appropriate as support for the audit report that would exist outside of the audit documentation.

Content of Audit Documentation

Paragraph 7. The first sentence of this paragraph related to audit documentation as the "principal record of auditing procedures applied..." is redundant with paragraph 1 in the Introduction section. As such, we recommend deleting this sentence.

Paragraph 8 Footnote 5. The footnote summarizes the different aspects of the audit procedures related to obtaining and evaluating evidential matter. The discussion omits references to evidence obtained in understanding the design and testing the operating effectiveness of client financial reporting controls. As such, the footnote suggests that the audit work to which this

requirement relates is limited to substantive audit work and thus is not applicable to control testing. We recommend expanding the description of evidential matter to include evidence obtained as part of the auditor's understanding and testing of internal controls.

Paragraph 9. The paragraph provides the auditor with risk-based considerations for determining appropriate audit documentation. We agree with the approach, however, we suggest that the revised standard explain why those considerations will be effective in driving audit quality- we offer that the considerations listed enable the engagement partner and other members of the team to focus on the engagement team's response to areas of significant risk, a similar notion to paragraph 11, allowing for appropriate audit supervision and a more stream-lined and focused review. We recommend amending the bullet with respect to the extent of judgment involved to focus instead on considering facts in place that the auditor considered in developing his or her response. Additionally, we recommend introducing another consideration related to the nature and condition of the entity's internal controls over financial reporting.

Paragraph 9 Footnote 6. The footnote sets forth the notion that the auditor should also consider the retrievability of company records when determining the nature and extent of documentation without providing a rationale for such consideration. The implication is that the auditor would now be responsible for client record retention in order to satisfy this standard. This notion is inconsistent with paragraph 14. Unless the note can be expanded to explain why it is relevant to the nature and extent of documentation, we recommend deleting it.

Paragraph 11. This paragraph expands the guidance for auditor considerations related to significant audit findings or issues. The first bullet of the paragraph defines "significant audit findings" as "significant." We recommend that the Board consider providing a more relevant definition, such as "changes in the company's industry, internal operations or financial operating systems that, in the auditors judgment, may result in a material misstatement of the financial statements or omission of appropriate disclosures. Such risks might relate to..." We believe this definition is more consistent with the current audit environment with respect to assessing company financial statement misstatement risks.

We also note that in the Report issued by the Public Oversight Board's *Panel On Audit Effectiveness* recommended, with respect to Linkage, that the audit firms-

"Require that an experienced manager review the resolution of all 'exceptions' noted during the audit and be satisfied that they were resolved appropriately and that appropriate decisions regarding the need for additional substantive tests were made."

The auditor's interpretation of the evidence obtained, the disposition of exceptions, and decisions about any additional audit response deemed necessary are critical components of reducing detection risk. As such, we recommend that paragraph 11 be revised to include documentation of such matters.

Ms. Gretchen Fischbach
August 22, 2001
Page 5 of 5

Appendix B

Proposed Amendment to SAS 56, *Analytical Procedures*. The proposed new paragraph includes a requirement that the auditor document "The expectation and how it was developed". We believe that this requirement substantially increases the auditors' required documentation of judgments and related thought processes resulting in an increased expectation for the auditor to document and defend all applications of judgment. In many situations throughout the audit, an auditor uses judgment to determine testing size, approach, and considerations related to making specific judgments and conclusions. With respect to analytical procedures, AU 329.18 states that "Many factors can influence financial relationships." The standard goes on to provide examples of the complexity and interaction of such factors. While we agree with the need for the auditor to consider such factors in the determination of an expectation, we do not believe that the auditor need document the extent of such considerations in the audit documentation.

We strongly recommend that the Board further expand or provide examples of the intended documentation with respect to this requirement. At a minimum, we recommend rephrasing the standard to read "The expectation and factors considered in its development, where that expectation is not otherwise readily determinable from the documentation of the work performed."

We would be pleased to discuss our comments with you or your staff at your convenience. If you have any questions, please contact Dorsey L. Baskin at 312-931-2238.

Very truly yours,

A handwritten signature in cursive script that reads "Arthur Andersen LLP".

Arthur Andersen LLP

LRW



CPAs | Consulting | Financial Advisors | Information Technology

There's power in our numbers.

August 23, 2001 8:00 AM

Ms. Gretchen Fischbach
Audit and Attest Standards, File 1861
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft on Audit Documentation

Good morning:

The Audit Documentation Task Force of the Virginia Society of CPAs is pleased to respond to this exposure draft. Our response reflects only the comments and opinions of the members of the task force.

The task force favors the issuance of the proposed standards and believes that it simply codifies and clarifies existing good practice. The following comments are offered only for your additional consideration.

1. Footnote 1 refers to supporting the audit report by means other than audit documentation. What does this mean? Could it mean some other media, such as videotape, or might it refer to work done by some other part of the CPA firm, such as the consulting or technology division. We believe some clarification of this point is needed.
2. Paragraph 7 provides that documentation may be in electronic or other media. We believe that the concept of being readily able to produce the documentation in readable form should be added to this paragraph. Further, paragraph 8 requires certain types of evidence and an indication of who performed and reviewed the work. In paperless systems, is there a need for assurances within the firm as to that information? For example, do typed initials of a preparer have the same effect as the handwritten initials of the same preparer? Could consideration be given to an electronic signature through a password. The task force observed that these considerations may more appropriately be in the Quality Control Standards area but, nevertheless, wishes to pose the question.

Ms. Gretchen Fischbach

August 23, 2001

Page 2

3. Footnotes 6 and 7 address important issues including issues related to retrievability and re-generation. Similar to the issue discussed in our point 2 above, we believe these issues are worthy of specific mention in the body of the standard – not merely as footnotes.
4. In paragraph 12, we suggest adding “*including peer review*” to the end of the second sentence. The last sentence relates to confidentiality, and we suggest that it be moved to the end of paragraph 13 as follows,

“...the auditor should adopt reasonable procedures to maintain the confidentiality of that information and prevent unauthorized access to the audit documentation.”

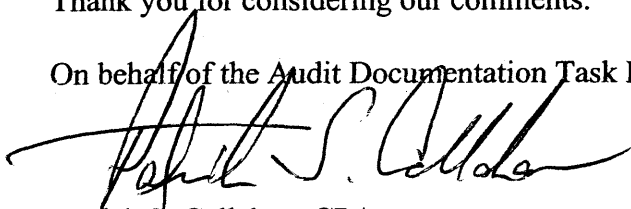
5. We believe that paragraph 13 is also an excellent place to add guidance regarding the confidentiality of client information that has been missing from our professional standards. We believe that auditors should be required to notify their clients whenever their information is sought by subpoena or other legal means. Simply put, such notice would then give the client an opportunity to seek the legal resources available to preserve the confidentiality of the information, if they choose. This is especially important because of the varying degrees of legal authority of subpoenas in various jurisdictions.

As a suggestion, the following sentence could be added to the end of paragraph 14:

“For example, the auditor should generally notify the client of a subpoena for audit documentation by other parties so that the client will have an opportunity to seek legal means of preserving the confidentiality of the information, if they choose.”

Thank you for considering our comments.

On behalf of the Audit Documentation Task Force,



Patrick S. Callahan, CPA

PSC/psm

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Peer Review Program

August 24, 2001

Gretchen Fischbach
Audit and Attest Standards
File 1861
AICPA
1211 Ave of the Americas
New York, NY 10036-8775

Dear Ms. Fischbach,

The AICPA Peer Review Board (PRB) appreciates the opportunity to comment on the Exposure Draft *Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements – Audit Documentation*.

The PRB believes that the proposed statement is very good and that it should assist firms in determining the nature and extent of audit documentation while not creating any additional peer review requirements.

The PRB also believes that the relationship between the *Statements on Quality Control Standards* and the *Statements on Auditing Standards* is very important and therefore recommends that footnote 3 on page 8 be incorporated into the actual body of the Standard as a separate paragraph (possibly titled "Engagement Performance").

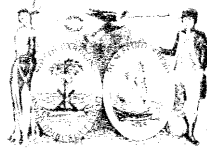
If you have any questions, please feel free to contact me or Gary Freundlich, Director - AICPA Peer Review Program, at (201) 938-3021.

Sincerely,

Tony Lynn

Anthony D. Lynn
Chair
AICPA Peer Review Board

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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August 24, 2001

Ms. Gretchen Fischbach
Audit and Attest Standards, File 1861
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Fischbach:

We have reviewed the Exposure Draft of the Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements – *Audit Documentation*. We are responsible for the audits of the South Carolina agencies including the Comprehensive Annual Financial Report, the statewide Single Audit and annual audits of the public colleges and universities. To fulfill our responsibilities we contract with CPA firms for some of the audits and in conducting working paper quality reviews of these audits we often find significant deficiencies in documentation of the work performed, so we believe that there is a need for increased guidance and specific requirements for audit documentation.

We believe that the current standards need revision and offer the following comments for your consideration.

Paragraph 5.a.

We recommend that examples of sufficient audit documentation to show that the work has been adequately "supervised" be included in the standard. We find that this documentation ranges from a sign off on an audit program procedure regarding supervision, to reviewer's initials on individual working papers. We have even had instances in which the reviews have been dated after the report date, so we believe that timely supervision should also be included.

Paragraph 6

We believe that a written audit program "appropriate for the type of entity" is needed. We do not believe that it is appropriate to use an audit program for commercial entities for a college, governmental entity, or non-profit organization or vice versa. Even though this may seem to be common sense it happens quite often so we believe that the standard should be explicit in the type of audit program to be used. Although documentation of audit objectives may be implied from paragraph 6, we believe the recommendation that audit objectives, either in the audit program or on individual working papers, should be required.

Paragraph 7

We recommend that documentation also include the date prepared and date reviewed as well as cross-referencing so that a reviewer will be able to follow the work. We have difficulty reviewing the work of CPA firms that do not cross-reference their work papers which makes it difficult to determine if their procedures have been appropriate and if the work supports the audit report.

Paragraph 8

We are pleased that consideration of the "reviewer" has been added to the proposed standards; however, we believe that the definition of "reviewer" should be expanded to include "an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant conclusions and judgments". This is part of the GAO standards for Government Auditing Standards (GAS) and we believe that it is applicable to other than GAS audits. As stated before, we review the work of our contract auditors (which are not always GAS audits) as part of our inspection process and the proposed definition of "reviewer" would not include our type of situation, since our review is technically not a peer review.

Paragraph 9

We recommend that conclusions be required to be documented for each auditing procedure applied instead of the auditor "considering the need to document". Sometimes conclusions are not stated in our reviews and in other cases we find that conclusions are not appropriate for an audit procedure or segment; such as for a procedure to meet the objective to assess the risk of material misstatement due to fraud, the conclusion may state that "fraud is fairly stated". If the conclusion is not stated, then our conclusion could be entirely different from the preparer.

Paragraph 10

We are pleased that identification of the items tested is included in the standard and believe that footnote 7 is important enough to include in the body of the standard. We also recommend that the identification of the items tested "should" indicate the source instead of "may be satisfied by indicating the source".

Appendix A
Proposed Amendment to SSAE No. 10

Paragraph 9

We agree that the attestation standards should mirror the documentation guidance in the SASs and would repeat the same suggestions for SSAE No. 10 that we have made above. We suggest that paragraphs regarding the following be added: work programs; supervision

Ms. Gretchen Fischbach
Page Three
August 24, 2001

documentation; reviews; and documenting procedures, conclusions and findings. Section 1.102 b. should state that "Sufficient competent evidence" instead of "Sufficient evidence" was obtained.

We appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Kay T. Pender".

Kay T. Pender, CPA
Director of Research and Training



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

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August 24, 2001

Ms. Gretchen Fischbach
AICPA, File 1861
Audit and Attest Standards
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Fischbach:

Thank you for the opportunity to respond to the AICPA Exposure Draft, *Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements*. We generally concur with the proposed audit documentation standard which would supercede SAS No. 41 and amend other standards.

We offer two suggested improvements for the new SAS. First, paragraph 8 states "Audit documentation should enable a reviewer with relevant knowledge and experience to understand from information contained therein the nature, timing, extent, and results of auditing procedures performed..." The term *reviewer* is defined in footnote 4 as "members of the engagement team, the concurring reviewer, and those involved in the accounting firm's inspection program and peer review process." We believe there are instances where other reviewers from outside the audit firm should be able to understand the documentation. For example, auditors who wish to rely on the work of other auditors may find it necessary to review the other firm's audit documentation. In addition, subsequent auditors may find it necessary to review the work of a predecessor auditor. Therefore, we suggest that footnote 4 specifically include the phrase "and other experienced auditors from outside the audit firm."

Second, paragraph 12 requires auditors to "adopt reasonable procedures to prevent unauthorized access to the audit documentation." We agree that safeguarding audit documentation is important and understand that it is difficult to specify the nature of those procedures. However, we believe it would be helpful to provide examples of reasonable procedures that could be used to safeguard audit documentation.

Again, thank you for the opportunity to respond. Mary Watson coordinated our response. If you have any questions about our comments, feel free to contact her at (608) 266-2818.

Sincerely,

Janice Mueller
State Auditor

JM/BN/bm



SHASS/0004923664
@MCIMAIL.COM

08/26/01 09:05 AM

To: gfischbach@aicpa.org
cc:
Subject: File 1861 Audit & Attest Stnd

Gretchen Fischbach
Audit and Attest Standards
File 1861

Stephen A. Hass
P.O.Box 42626
Philadelphia, PA 19101-2626
1-888-432-HASS

33 Words
File F:\edi\edsas_6_27_01.pdf

2001 c Stephen A. Hass

COMMENTS ON EXPOSURE DRAFT

by

Stephen A. Hass

As a sole practitioner audit documentation is critical to being able to perform audits and agreed-upon procedures engagements of small Federal Credit Unions. In connection with a system that keeps track of all contacts the practitioner has with other parties (i.e., a correspondence log) it is possible to control the many pieces of data that the practitioner receives (and sends) for the various clients in his accounting and auditing engagements without losing the "trail of evidence" upon which he relies. In this way he is able to "stand firm" when questioned about the sequence of events and his responses to those data, not just for a particular engagement, but for all his firm's activities.

Absent the existence of such a correspondence log indicates that serious omissions may occur in the practitioner's handling of the voluminous interruptions that occur on a daily basis in carrying out the myriad of individual activities that surround his performance of a particular engagement (such as the audit or agreed-upon procedures) that is the subject of this SAS. Common sense would presume that the practitioner have such a control mechanism in place as part of his system of quality control. This log should also address how the firm makes changes to its electronic

data systems and computer operations.

The End.

August 27, 2001

Ms. Gretchen Fischbach

Audit and Attest Standards, File 1861

AICPA

1211 Avenue of the Americas

New York, NY 10036-8775

Re: June 27, 2001 Exposure Draft: *Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements – Audit Documentation*. File No. 1861

Dear Ms. Fischbach:

One of the objectives that the Council of the American Institute of CPAs established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee ("TIC"). This communication is in accordance with that objective.

TIC has reviewed the above referenced exposure draft (ED) and is providing the following comments for your consideration.

GENERAL COMMENTS

The members of TIC appreciate having had the earlier opportunity to informally discuss the ED with the Director of Audit and Attest Standards. TIC is in agreement with most of the proposed guidance in the *ED*. Specific comments are provided below that address TIC's concern with certain provisions of the ED.

In addition, TIC believes this ED creates the need for educational material that will provide practical, implementation guidance. In particular, numerous examples in Q&A format should be included to clarify potentially troublesome areas and to highlight changes in documentation requirements. TIC members would be happy to assist in the development of the Q's & A's.

SPECIFIC COMMENTS

Paragraph 6

TIC recommends the deletion of the last two sentences of paragraph 6, which state:

In developing the audit program, the auditor should consider the results of planning procedures. As the audit progresses, changed conditions may make it necessary to modify auditing procedures from those set forth in the audit program.

TIC believes that the above referenced sentences discuss planning rather than documentation issues and therefore should remain in Statement on Auditing Standards (SAS) No. 22, *Planning and Supervision*. The need to consider the results of planning procedures in developing the audit program may also need to be repeated in the new audit process SAS, which is currently under development.

In addition, the last sentence of paragraph 6 quoted above begs the question of whether documentation on the audit program is necessary when auditing procedures are modified for changed conditions that occur during the course of the audit. TIC believes that current practice today varies between actually modifying the audit program and just documenting the additional procedures performed on the workpapers. TIC believes that if the sentence is not deleted, it is important to clarify the intention of this old sentence from SAS No. 22 now that it is placed in the context of an audit documentation standard. TIC also believes that as long as the procedures are documented on the workpapers, modifying the actual audit program is unnecessary and provides no additional audit evidence.

Paragraph 10

TIC believes that the phrase, "where appropriate," in paragraph 10 is ambiguous and should be clarified:

*In documenting the extent of auditing procedures that involve inspection of documents or confirmation of balances, the audit documentation should include an identification of the items tested⁷ and, **where appropriate**, abstracts or copies of documents such as significant contracts or agreements. [Footnote omitted.]*

Additional guidance is needed on what factors should be considered in determining appropriateness. Without this extra guidance, various interpretations of the phrase will evolve causing divergence in practice to the detriment of many practitioners.

TIC suggests the paragraph be revised as follows:

Documentation of auditing procedures that involve inspection of documents or confirmation of balances should include:

- *an identification of the items tested⁷ and,*
- *abstracts or copies of documents (such as contracts, agreements or confirmations) if, in the auditor's judgment, the document(s) provide key evidential matter concerning high risk audit areas, controversial matters or issues, complex or unusual transactions or material account balances or transactions.*

[Footnote omitted for this illustration. See TIC's comment on footnote 7 below.]

TIC also believes that guidance on the documentation of inquiry and observation procedures needs to be added to the proposed SAS. The ED provides very specific guidance on other areas (such as inspection of documents and confirmation of balances). To omit discussion of inquiry and observation would imply either that no documentation requirement exists or that the procedures are less important than other audit steps. Our research indicates that no explicit documentation guidance exists for inquiry and observation procedures in other areas of the auditing standards.

Footnote 7

TIC recommends that footnote 7 be moved and either incorporated into paragraph 10 or made a separate paragraph of the ED. The last sentence of the last paragraph of footnote 7, that reads as follows, includes mandatory guidance that may be missed because of its placement in a footnote.

*In those circumstances, audit documentation **should** include either a copy of the source or identifying characteristics of the items selected...*

(Emphasis added)

Footnote 6

TIC believes footnote 6 inappropriately expands the auditor's responsibility for client records and requests that it be deleted from the standard. .

The auditor also may want to consider the retrievability of entity records and documents when determining the nature and extent of documentation.

TIC believes that asking the auditor to track, oversee or control the retention of client records inappropriately expands the auditor's responsibility. TIC members envisioned practitioners being forced to learn about or even audit clients' record retention policies to ensure that their firms could comply with this standard.

TIC believes adequate documentation of audit evidence is the relevant objective, not whether the client retains the records from which the tests were conducted. The ED, as currently written, implies the auditor's workpapers should be a substitute for the client's files of contracts and agreements in certain cases. TIC believes the legal responsibility for record retention rests with clients, not the auditors. The new audit documentation standard should not include any language that would imply that the auditor has an obligation to keep surrogate records.

TIC believes that the level and content of audit documentation for particular audit areas or procedures should be set based on the needs of the engagement team reviewers who must ensure that the audit work performed is adequate and consistent with the conclusions reached in the auditor's report. An audit standard should not imply that copies of client records would need to be included in the workpapers without linking their inclusion to a specific purpose.

If the Board feels strongly that guidance should be provided relating to the inclusion of client documents in workpapers, TIC recommends that footnote 6 be rephrased and incorporated into the educational guidance suggested on page one of this letter.

Footnote 4

*For purposes of this paragraph, **the term reviewer includes** members of the engagement team, the concurring reviewer, and **those involved in the** accounting firm's inspection program and **peer review process**. Auditors from firms that do not have an inspection or peer review process are not exempt from this requirement.*

(Emphasis added)

TIC objects to the inclusion of the peer review process reference in the audit standards since it implies that the auditor should consider the peer reviewer in determining audit documentation. Since the peer reviewer will not have participated in planning or performing audit procedures, it is inappropriate to have to consider his or her judgments regarding the nature, timing and extent of audit procedures. It is the role of the peer reviewer to determine compliance with the audit firm's quality control standards, which are regulatory in nature. TIC questions the appropriateness of referencing a regulatory procedure in a documentation audit standard.

The reference to the peer review process in footnote 4 suggests that peer reviewers may have the right to question the audit firm's own quality control documentation policies. . Currently peer reviewers have been criticized for contributing to standards overload by enforcing their judgments on reviewed firms in the peer review process. The inclusion of peer reviewers in this footnote may empower the peer reviewer, which would exacerbate this problem.

Ms. Gretchen Fischbach
August 27, 2001
Page 5

TIC questions the need to specifically reference the peer review process in the ED when compliance with the revised documentation procedures will automatically be included in the peer review process.

Paragraph 4

*The auditor should be aware that **inspection procedures** may be used to evaluate the extent of a firm's compliance with its quality control policies and procedures and that review of audit documentation is an **inspection procedure**.*

(Emphasis added)

TIC believes that each reference to "inspection procedure(s)" in paragraph 4 should be changed to "monitoring procedure(s)." Monitoring, not inspection, is a required element of quality control. "Inspection" is an optional procedure that may be used in performing monitoring. TIC fears that some firms may erroneously interpret a reference to inspection procedures in the ED as a requirement for them to perform an inspection.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Candace Wright, Chair

PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees



AERoevens@aol.com

08/27/01 04:52 PM

To: gfischbach@aicpa.org

cc:

Subject: Response to Exposure Draft - for LCPA

Ms. Fischbach,

Please confirm that you have received the attached document.

Thank you,

Albert E. Roevens, Jr. CPA



expdraftworkpapers.doc

October 13, 2000

Ms. Gretchen Fischbach
Audit and Attest Standards

VIA EMAIL TRANSMISSION: gfischbach@acipa.org

COMMENTS ON EXPOSURE DRAFT

**PROPOSED STATEMENT ON AUDITING STANDARDS AND STATEMENT ON
STANDARDS FOR ATTESTATION ENGAGEMENTS**

AUDIT DOCUMENTATION

DATE OF EXPOSURE DRAFT: June 27, 2001

DATE COMMENT SHOULD BE SENT: August 27, 2001

COMMENT SUBMITTED BY: Auditing and Accounting Standards Committee –
Society of Louisiana Certified Public Accountants

Vance R. Bailes, CPA
Christine Callahan, CPA
John D. Cameron, CPA
Marty Chehotsky, CPA
C. Will Elliott, CPA
Jon Flair, CPA
William A. Paddie, CPA
Christine Raspberry, CPA
Brent Silva, CPA
Bruce Wampler, CPA

COMMENT PREPARED BY: Albert E. Roevens, Jr. CPA

GENERAL COMMENTS:

All responding members generally agree with the changes proposed by the exposure draft and believe that a revision to SAS 41 was needed.

Two responding members believe that exposure draft did not have to be as specific with regard to what type of documentation should be included in audit workpapers. This Standard appears to require specific documentation and to go as far as identification and what the expectation is for the testing in lieu of allowing the auditor to determine the documentation necessary to achieve the objective. The members in this case are worried

that auditing will become completing tailored checklists and workpapers, which reduce the auditor's judgment in the testing and documentation necessary to meet the objectives of the engagement. This is specifically the case in paragraphs 10 and 22. Our recommendations will be addressed for these paragraphs in the section below.

The exposure draft mentions in several instances that the files should contain written audit programs. Based on technological advancements audit programs may be on magnetic media, etc.; therefore, we believe that the word "*written*" should be deleted and replaced with the documentation that should include an audit program or programs.

One responding member believes that all proposed changes should be in the text of the proposal, not in an appendix, because the information in the appendix does not appear to relate with the information in body of the proposal.

For example, paragraph 3 of Appendix B shows a new paragraph 40 to SAS 47, describing documentation requirements of aggregated misstatements. These new requirements do not appear in the "Content of Audit Documentation" section of the standard. The new documentation standard regarding SAS 56, dealing with analytical procedures is also not discussed in this section. See additional response to this documentation requirement below.

Specific Comments

Paragraph 5, Page 9 – a., b., and c. are just repeating the standards of fieldwork, which may not be necessary. If the standards of fieldwork are revised, this SAS will need to be revised again.

Paragraph 6, Page 9 – Three responding members strongly agree with the inclusion of this paragraph which informs practitioners that audit programs are necessary.

Paragraph 7, Page 9 – Due to the use of modern technology, the examples should be expanded to include video and audio media containing supporting documentation and any other use of technological means of storing audit documentation.

Paragraph 8, Page 9 – "Audit documentation should (a) enable a reviewer..." This explicitly introduces the need to prepare audit documentation to benefit someone other than the preparer. How is the concept of reviewer applied by a sole practitioner? The explicit mention of the reviewer could be removed by using wording such as: "Audit documentation should (a) demonstrate the nature, timing, extent, and results of auditing procedures performed, and the evidence obtained..." The proposed wording is consistent with wording in paragraph 5 where it says, "Audit documentation should be sufficient to show that standards of fieldwork have been observed..." In this paragraph there is no indication of who should be shown the documentation. If the new concept of reviewer is deemed necessary to attempt to limit the persons for whom audit documentation is prepared (i.e. not for just anyone, but for a reviewer with relevant knowledge and experience), the definition should be changed. By referring to "the" concurring reviewer,

it seems to establish the expectation that concurring reviewers exist on all engagements. The term "concurring reviewer" is not used in the auditing standards and not required, except for those following Appendix E of the SEC Practice Section of the AICPA. This could be resolved by changing footnote 4 as follows: "For purposes of this paragraph, the term reviewer includes members of the engagement team, those involved in the accounting firm's system of quality control such as a concurring reviewer, or those involved in the accounting firm's peer review process."

Paragraph 9, Page 10 – The use of the wording, "Risk of material misstatement associated with the assertion, account or class of transaction." Does this terminology change the auditor's responsibility that the financial statements as a whole are free of material misstatement? This appears to require that each assertion, account, or class of transaction must be evaluated and this evaluation must be made at a different level than the financial statements as a whole. The term "risk of material misstatement" should be reserved for considerations at the financial statement level. Consideration of risk at the assertion, account or class of transactions level should be at an amount that when combined with misstatements in other assertions, balances, or classes, could exist without causing the financial statements to be materially misstated. The wording could reflect this distinction if changed as follows: "Audit risk at the assertion, account-balance or class-of-transactions level." This will make this paragraph consistent with AU 312.26

Paragraph 10, Page 10 – This paragraph appears to require that for *inspection of documents or confirmation of balances*, copies of documents or abstracts must be included as audit documentation. Audit procedures may require that inspection or confirmation procedures be performed, but requiring the inclusion of copies of contracts or other agreements should be determined based on the judgment of the auditor. Depending on the basis or reliance placed on this documentation, the auditor may consider it sufficient to document in a memorandum a conclusion related to the work performed, instead of including voluminous copies of contracts or other agreements. The last part of this item, "...and, where appropriate, abstracts, or copies of documents such as significant contracts or agreements," should be deleted.

One responding member had the following suggestion: To require identification of items tested (e.g., invoice number) in all cases. This requirement would eliminate the need for footnote 7. Including this documentation would not be particularly burdensome, and including this information would eliminate any concern over the ability to regenerate the sample at a future date.

Paragraph 11, Page 10, Second bullet - "Results of auditing procedures that indicate that (a) the financial statements or disclosures could be materially misstated or (b) that auditing procedures need to be significantly modified." The word "that" after (b) appears to be redundant and should be deleted.

APPENDIX B, Paragraph 5, Page 14 – Two members disagree with those proposed additional documentation requirements. Analytical review procedures have heretofore been a matter for the auditor's professional opinion in determining their necessity, extent,

and nature. These proposed documentation requirements unduly infringe on that judgement and effectively micromanage the auditor's tests in this area.



vrauser@state.mt.us

08/27/01 05:25 PM

To: gfischbach@aicpa.org

cc:

Subject: Proposed SAS and SSAE - Audit Documentation/File 1861

Gretchen Fischbach
Audit and Attest Standards
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Fischbach,

We are pleased to participate in due process with respect to the exposure draft, Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements - Audit Documentation. We offer the following comments.

We are in general agreement with the requirements contained in the proposed statement and the amendments to existing auditing standards. Most of the guidance provided in the proposal is already practiced in our organization, primarily due to the requirements of the Yellow Book and the Single Audit Act Amendments of 1996.

We believe footnote 2 is unnecessary. Whatever means the auditor uses to support the report should constitute audit documentation, particularly since paragraph 1 states, "...The quantity, type, and content of audit documentation are matters of the auditor's professional judgment."

We believe proposed footnote 21 in SSAE No. 10 is also unnecessary as the requirements of paragraph 1.100 clearly require the practitioner to have support for the report rendered. That support, regardless of its form, should constitute attest documentation.

If you have any questions concerning these comments, please contact me by e-mail, vrauser@state.mt.us <mailto:vrauser@state.mt.us> or by phone, 406.444.3122.

Sincerely,
Vickie Rauser
Audit Manager
Montana Legislative Audit Division



GIBLER@auditor.stat
e.mo.us

08/28/01 01:12 PM

To: gfischbach@aicpa.org
cc:
Subject: Comments - Exposure Draft

We appreciate the opportunity to comment on the proposed Statement on Auditing Standards (SAS) titled Audit Documentation and the related amendments to other SASs and a Statement on Standards for Attestation Engagements. For the most part, we can accept the proposed changes. For example, most of the changes to SAS No. 41, Working Papers, are consistent with Government Auditing Standards documentation requirements for government audits or represent things that a competent auditor already should be doing. However, as a general observation, we note that despite the statement on page 8 (paragraph 1) that "the quantity, type, and content of audit documentation are matters of the auditor's professional judgment," the SASs are becoming increasingly specific on what auditing procedures are to be performed and how they are to be documented.

We also offer the following comments for your consideration:

page 10, paragraph 11 - This paragraph includes a new requirement regarding documentation of significant audit findings and lists types of findings that should be considered significant. However, the first bullet seems circular since it defines one type of significant audit finding as matters that are both "significant" and involving issues related to the selection, application, and consistency of accounting principles. However, "significant" itself is not defined. We suggest the bullet be revised to indicate that issues related to the selection, application, and consistency of accounting principles may be significant, particularly when such issues relate to the handling of (a) complex or unusual transactions and (b) estimates and uncertainties.

page 12, paragraph 1.b. - We suggest the summary of SAS No. 82 be revised to distinguish more clearly between the procedures required for the planning phase and subsequently during the performance of the audit:


SAS No. 82, . . . , to document evidence that the risk of material misstatement due to fraud was assessed in planning the audit, including any risk factors identified and the auditor's response to those factors. Also, the proposed SAS does not change the requirement to document any fraud risk factors or other conditions identified during the audit and any further response that the auditor concluded was appropriate.

In addition, we also will mail a draft marked with several editorial suggestions to improve the consistency, clarity, and conciseness of the proposed standards.

Although we are one day past the August 27 comment deadline, we hope our comments will be accepted and considered. If you have any questions, please contact me.

Myrana Gibler, CPA, CGFM
Audit Manager (Technical/Research)
Office of Missouri State Auditor
P.O. Box 869
Jefferson City, MO 65102
Telephone: (573) 751-5041
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Note: On the pages that follow:

1. The symbol  means "delete".
2. Explanations for the suggested changes are circled.

EXPOSURE DRAFT

PROPOSED STATEMENT ON AUDITING STANDARDS AND STATEMENT ON STANDARDS FOR ATTESTATION ENGAGEMENTS

AUDIT DOCUMENTATION

(To Supersede Statement on Auditing
Standards No. 41, *Working Papers*)

**AND AMENDMENTS TO
SAS NO. 22, *PLANNING AND SUPERVISION*,
SAS NO. 47, *AUDIT RISK AND MATERIALITY IN
CONDUCTING AN AUDIT*,
SAS NO. 56, *ANALYTICAL PROCEDURES*,
SAS NO. 59, *THE AUDITOR'S CONSIDERATION OF AN ENTITY'S
ABILITY TO CONTINUE AS A GOING CONCERN*,
AND TO
SSAE NO. 10, *ATTESTATION STANDARDS:
REVISION AND RECODIFICATION***

June 27, 2001

Prepared by the AICPA Auditing Standards Board for comment from persons interested in
auditing and reporting issues

Comments should be received by August 27, 2001, and addressed to Gretchen Fischbach,
Audit and Attest Standards, File 1861, AICPA, 1211 Avenue of the Americas, New York,
NY 10036-8775 or via the Internet to gfischbach@aicpa.org

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The CPA. Never Underestimate The Value.®

June 27, 2001

Accompanying this letter is an exposure draft, approved by the Auditing Standards Board (ASB), of a proposed Statement on Auditing Standards (SAS) titled *Audit Documentation*. This proposed Statement provides a framework within which the auditor can exercise professional judgment in determining the nature and extent of audit documentation needed to comply with professional standards. The exposure draft also includes proposed amendments to the following standards:

1. SAS No. 22, *Planning and Supervision*
2. SAS No. 47, *Audit Risk and Materiality in Conducting an Audit*
3. SAS No. 56, *Analytical Procedures*
4. SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*
5. Statement on Standards for Attestation Engagements No. 10, *Attestation Standards: Revision and Recodification*

A summary of the significant provisions of the proposed SAS and the proposed amendments to the standards listed above accompanies this letter.

Comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the ASB's consideration of responses, comments should refer to specific paragraphs and include supporting reasons for each suggestion or comment.

In developing guidance, the ASB considers the relationship between the cost imposed and the benefits reasonably expected to be derived from audits. It also considers the differences the auditor may encounter in the audit of financial statements of small businesses and, when appropriate, makes special provisions to meet those needs. Therefore, the ASB would particularly appreciate comments on those matters.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after October 1, 2001, for one year. Responses should be sent to Gretchen Fischbach, Audit and Attest Standards, File 1861, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775 in time to be received by August 27, 2001. Responses also may be sent by electronic mail to gfischbach@aicpa.org.

Sincerely,

James S. Gerson
Chair
Auditing Standards Board

Charles E. Landes
Director
Audit and Attest Standards

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(2000–2001)**

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Charles E. Landes
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Gretchen Fischbach
Technical Manager
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SUMMARY

WHY ISSUED

The proposed Statement on Auditing Standards (SAS) provides an updated framework within which the auditor can exercise professional judgment in determining the nature and extent of audit documentation needed to comply with professional standards.

The guidance in the current documentation standard, which is SAS No. 41, *Working Papers* (AICPA, *Professional Standards*, vol. 1, AU sec. 339), has not been significantly changed since September 1967. Given the changes in the auditing environment in recent years, the Auditing Standards Board (ASB) undertook to develop guidance that would provide an updated framework for practitioners performing audits of financial statements. The proposed SAS and amendments to certain other SASs (see appendix B) are the result of the ASB's efforts. In future standards-setting projects, the ASB will consider the need for specific documentation requirements.

The concepts developed for this proposed SAS also are relevant to practitioners performing attestation engagements. Accordingly, the exposure draft includes a proposed amendment to Statement on Standards for Attestation Engagements (SSAE) No. 10, *Attestation Standards: Revision and Recodification* (AICPA, *Professional Standards*, vol. 1, AT secs. 101–701) (see appendix B).

WHAT IT DOES

The proposed SAS—

1. Uses the term *audit documentation* in place of *working papers*.
2. Reminds auditors that inspection procedures, as described in Statement of Quality Control Standards No. 3, *Monitoring a CPA Firm's Accounting and Auditing Practice* (AICPA, *Professional Standards*, vol. 2, QC sec. 30), may be used to evaluate the extent of a firm's compliance with its quality control policies and procedures and that review of audit documentation is an inspection procedure.
3. Incorporates the current requirement in SAS No. 22, *Planning and Supervision* (AICPA, *Professional Standards*, vol. 1, AU sec. 311), for a written audit program (or set of audit programs) for every audit.
4. Introduces the concept that audit documentation should (a) enable a reviewer with relevant knowledge and experience to understand from the information contained therein the nature, timing, extent, and results of auditing procedures performed, and the evidence obtained, and (b) indicate the engagement team member(s) who performed and reviewed the work.

5. Lists factors that the auditor should consider in determining the nature and extent of the audit documentation to be prepared for a particular audit area or auditing procedure.
6. For auditing procedures that involve inspection of documents or confirmation of balances, requires audit documentation to include an identification of the items tested and, where appropriate, abstracts or copies of documents such as significant contracts or agreements. (In a current standards-setting project, the ASB is considering documentation requirements for other types of auditing procedures.)
7. Requires documentation of audit findings or issues that in the auditor's judgment are significant, actions taken to address them, and the basis for the conclusions reached. The proposed Statement includes a list of types of significant audit findings and issues.
8. Requires the auditor to adopt reasonable procedures to prevent unauthorized access to the audit documentation.

The proposed amendments to other SASs (see appendix B) accomplish the following:

1. SAS No. 22, *Planning and Supervision*—Move the guidance in paragraph 5 regarding the audit program, modified as necessary, to the new SAS.
2. SAS No. 47, *Audit Risk and Materiality in Conducting an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 312)—Add a requirement to document the nature and effect of aggregated misstatements as well as the auditor's conclusion about whether those misstatements cause the financial statements to be materially misstated.
3. SAS No. 56, *Analytical Procedures* (AICPA, *Professional Standards*, vol. 1, AU sec. 329)—Add a specific documentation requirement that applies when an auditor uses an analytical procedure as the principal substantive test of a significant financial statement assertion.
4. SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, vol. 1, AU sec. 341)—Add a requirement to SAS No. 59 for the auditor to document the conditions or events that led him or her to believe that there is substantial doubt about the entity's ability to continue as a going concern; the work performed in connection with the auditor's evaluation of management's plans; the auditor's conclusion as to whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time; and the consideration and effect of that conclusion on the financial statements, disclosures, and audit report.

The proposed amendment to SSAE No. 10 (see appendix B) incorporates in the attestation standards the concepts and terminology in the proposed SAS. It also unifies the documentation guidance in the attestation standards.

HOW IT AFFECTS EXISTING STANDARDS

The exposure draft would result in—

1. A new SAS on audit documentation that would—
 - Supersede SAS No. 41
 - Incorporate the guidance that is currently in paragraph 5 of SAS No. 22 (and consequently delete paragraph 5 of SAS No. 22)
 - Add a new paragraph to SAS No. 47
 - Add a new section and paragraph to SAS No. 56
 - Add a new section and paragraph to SAS No. 59
2. A new SSAE that would amend SSAE No. 10 to incorporate the guidance on documentation from the new SAS.

PROPOSED STATEMENT ON AUDITING STANDARDS

AUDIT DOCUMENTATION¹

(Supersedes Statement on Auditing Standards No. 41, *Working Papers*)

INTRODUCTION

1. The auditor should prepare and maintain audit documentation, the form and content of which should be designed to meet the circumstances of a particular engagement. The information contained in audit documentation constitutes the principal record of the work that the auditor has done and the conclusions that he or she has reached. The quantity, type, and content of audit documentation are matters of the auditor's professional judgment.

2. Other Statements on Auditing Standards contain specific documentation requirements (see appendix A). Additionally, specific documentation requirements may be included in other standards (e.g., government auditing standards), laws, and regulations applicable to the engagement.

OBJECTIVES OF AUDIT DOCUMENTATION

3. Audit documentation serves mainly to—

a. Provide the principal support for the auditor's report, including the representation regarding observance of the standards of field work, which is implicit in the reference in the report to generally accepted auditing standards.²

b. Aid the auditor in the conduct and supervision of the audit.

4. The auditor should be aware that inspection procedures may be used to evaluate the extent of a firm's compliance with its quality control policies and procedures and that review of audit documentation is an inspection procedure.³

¹ Audit documentation also may be referred to as *working papers*.

X ² However, ~~there is no intention to imply that~~ the auditor ~~would be~~ precluded from supporting his or her report by other means in addition to audit documentation. *wordy* *is not*

X ³ With respect to engagement performance, Statement on Quality Control Standards No. 2, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* (AICPA, *Professional Standards*, vol. 2, QC sec. 20.17), requires a firm to establish policies and procedures to provide it with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality. Statement on Auditing Standards (SAS) No. 25, *The Relationship of Generally Accepted Auditing Standards to Quality Control Standards* (AICPA, *Professional Standards*, vol. 1, AU sec. 161), indicates that generally accepted auditing standards and quality control standards are related, and the quality control policies and procedures that a firm adopts may affect both the conduct of individual audit engagements and the conduct of a firm's audit practice as a whole.

Add "s" for consistency with reference at top of page

CONTENT OF AUDIT DOCUMENTATION

5. Audit documentation should be sufficient to show that standards of fieldwork have been observed as follows:

- a. The work has been adequately planned and supervised.
- b. A sufficient understanding of internal control has been obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.
- c. Sufficient competent evidential matter has been obtained through the auditing procedures applied to afford a reasonable basis for an opinion.

6. Audit documentation should include a written audit program (or set of audit programs) for every audit. The audit program should set forth in reasonable detail the auditing procedures that the auditor believes are necessary to accomplish the objectives of the audit. The form of the audit program and the extent of its detail are matters of the auditor's professional judgment and will vary with the circumstances. In developing the audit program, the auditor should consider the results of planning procedures. As the audit progresses, changed conditions may make it necessary to modify auditing procedures from those set forth in the audit program.

7. Audit documentation is the principal record of auditing procedures applied, evidence obtained, and conclusions reached by the auditor in the engagement. Examples of audit documentation are analyses, memoranda, letters of confirmation and representation, abstracts or copies of entity documents, and schedules or commentaries prepared or obtained by the auditor. Audit documentation may be in paper form, electronic form, or other media.

8. Audit documentation should (a) enable a reviewer⁴ with relevant knowledge and experience to understand from the information contained therein the nature, timing, extent, and results of auditing procedures performed, and the evidence obtained,⁵ and (b) indicate the engagement team member(s) who performed and reviewed the work.

⁴ For purposes of this paragraph, the term reviewer includes members of the engagement team, the concurring reviewer, and those involved in the accounting firm's inspection program and peer review process. Auditors from firms that do not have an inspection or peer review process are not exempt from this requirement.

⁵ Most of the independent auditor's work in forming his or her opinion on financial statements consists of obtaining and evaluating evidential matter concerning the assertions in such financial statements. SAS No. 31, *Evidential Matter* (AICPA, *Professional Standards*, vol. 1, AU sec. 326), includes a discussion of the broad categories of financial statement assertions; guidance on using the assertions in developing audit objectives and designing substantive tests; a discussion of the nature of evidential matter, which includes minutes of meetings, confirmations and other written representations by knowledgeable people, and information obtained by the auditor from inquiry, observation, inspection, and physical examination; and guidance as to the auditor's evaluation of the competence and sufficiency of the evidential matter.

In understanding the evidence obtained, the reviewer should consider that the auditor may have supported the report by other means in addition to audit documentation (see footnote 2).

Consistently use a comma before the last item in a series.

Shown as two words in para. 3.a.

Consider using "CPA firm's or simply 'firm's" for consistency with footnote 3, page 8.

Very long sentence. Suggest listing items a., b., c., etc. to improve readability.

9. In determining the nature and extent of the documentation for a particular audit area or auditing procedure, the auditor should consider the following factors:⁶

- Risk of material misstatement associated with the assertion, account, or class of transactions
- Extent of judgment involved in performing the work and evaluating the results
- Significance of the evidence obtained to the assertion being tested
- Nature and extent of exceptions identified
- The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed.

10. In documenting the extent of auditing procedures that involve inspection of documents or confirmation of balances, the audit documentation should include an identification of the items tested⁷ and, where appropriate, abstracts or copies of documents such as significant contracts or agreements.

11. In addition, the auditor should document audit findings or issues that in his or her judgment are significant, actions taken to address them (including any additional evidence obtained), and the basis for the conclusions reached. Significant audit findings or issues include the following:

- Matters that ~~are both~~ (a) significant and (b) involve issues regarding the appropriate selection, application, and consistency of accounting principles with regard to the financial statements, including related disclosures. Such matters may relate to (a) accounting for complex or unusual transactions, (b) estimates and uncertainties and, if applicable, the related management assumptions, or (c) other financial reporting matters.
- Results of auditing procedures that indicate that (a) the financial statements or disclosures could be materially misstated or (b) ~~that auditing procedures need to be significantly modified.~~
- Significant difficulty in applying auditing procedures the auditor considers necessary.

⁶ The auditor also may want to consider the retrievability of entity records and documents when determining the nature and extent of documentation.

⁷ The identification of the items tested may be satisfied by indicating the source from which the items were selected and the specific selection criteria, for example—

- When a haphazard or random sample is selected, the documentation should include identifying characteristics (for example, the specific invoice numbers of the items included in the sample).
- When all items over a specified dollar amount are selected from a listing, the documentation need describe only the scope and the identification of the listing (for example, all invoices over \$25,000 from the December sales journal).
- When a systematic sample is selected from a population of documents, the documentation need only provide an identification of the source of the documents and an indication of the starting point and the sampling interval (for example, a systematic sample of shipping reports was selected from the shipping log for the period from X to Y, starting with report number 14564 and selecting every 250th report from that point).

With respect to the last two examples, in certain information systems the source from which items are selected exists only for a short period of time and cannot be subsequently regenerated. In those circumstances, audit documentation should include either a copy of the source or identifying characteristics of the items selected (for example, the specific invoice numbers of the items included in the sample).

- Other findings that could result in modification of the auditor's report.

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OWNERSHIP AND CONFIDENTIALITY OF AUDIT DOCUMENTATION

12. Audit documentation is the property of the auditor, and some states recognize this right of ownership in their statutes. The auditor should retain audit documentation for a period sufficient to meet the needs of his or her practice and to satisfy any applicable legal or regulatory requirements for records retention. The auditor also should adopt reasonable procedures to prevent unauthorized access to the audit documentation.

13. The auditor has an ethical, and in some situations a legal, obligation to maintain the confidentiality of client information.⁸ Because audit documentation often contains confidential client information, the auditor should adopt reasonable procedures to maintain the confidentiality of that information.

14. Certain audit documentation may sometimes serve as a useful reference source for the client, but it should not be regarded as a part of, or a substitute for, the client's accounting records.

*Pronoun not needed, also,
its object ("audit documentation")
may not be clear.*

EFFECTIVE DATE

15. This Statement is effective for audits of financial statements for periods ending on or after June 15, 2002. Earlier application is permitted.

⁸ Also, see Rule 301, Confidential Client Information (AICPA, *Professional Standards*, vol. 2, ET sec. 30), of the AICPA's *Code of Professional Conduct*.

APPENDIX A

AUDIT DOCUMENTATION REQUIREMENTS IN OTHER STATEMENTS ON AUDITING STANDARDS

1. Documentation requirements are included in other Statements on Auditing Standards (SASs). This proposed SAS does not change the requirement in (references are to sections in the publication AICPA, *Professional Standards*, volume 1)—

Plural used in heading above

- a. SAS No. 1, *Codification of Auditing Standards and Procedures* (AICPA, *Professional Standards*, vol. 1, AU sec. 310.05, "Establishing an Understanding With the Client"), to document the understanding with the client. X
- b. SAS No. 82, *Consideration of Fraud in a Financial Statement Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 316.37), to include in audit documentation evidence of the performance of the assessment of the risk of material misstatement due to fraud and the auditor's response to risk factors identified. Also, the proposed SAS does not change the requirement to document any fraud risk factors or other conditions identified during the audit and any further response that the auditor concluded was appropriate. X
- c. SAS No. 54, *Illegal Acts by Clients* (AICPA, *Professional Standards*, vol. 1, AU sec. 317.17), to document oral communications to the audit committee or others with equivalent authority and responsibility regarding illegal acts that come to the auditor's attention.
- d. SAS No. 55, *Consideration of Internal Control in a Financial Statement Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 319.61), to document the understanding of the entity's internal control components obtained to plan the audit. Also, the proposed SAS does not change the requirement in SAS No. 55 (AU sec. 319.83) for the auditor to document his or her conclusions about the assessed level of control risk.
- e. SAS No. 60, *Communication of Internal Control Related Matters Noted in an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 325.09), to document oral communications with the audit committee or others with equivalent authority and responsibility of conditions noted by the auditor that are considered reportable or that are the result of agreement with the client.
- f. SAS No. 67, *The Confirmation Process* (AICPA, *Professional Standards*, vol. 1, AU sec. 330.29), to document oral confirmations. Also, when the auditor has not requested confirmations in the examination of accounts receivable, the proposed SAS does not change the requirement in SAS No. 67 (AU sec. 330.35) to document how the auditor overcame this presumption.
- g. SAS No. 85, *Management Representations* (AICPA, *Professional Standards*, vol. 1, AU sec. 333), to obtain written representations from management.
- h. SAS No. 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments* (AICPA, *Professional Standards*, vol. 1, AU sec. 337.05d), to document in

either the audit inquiry letter or a separate letter to the client's lawyer, that the client has assured the auditor that it has disclosed all unasserted claims that the lawyer has advised the client are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. Also, the proposed SAS does not change the requirement in SAS No. 12 (AU sec. 337.10) to document the conclusions reached as a result of responses obtained in conference relating to matters covered by the audit inquiry letter.

Added word to agree with SAS section.

- i. SAS No. 61, *Communications With Audit Committees* (AICPA, *Professional Standards*, vol. 1, AU sec. 380.03), to document any oral communications with the audit committee regarding the scope and results of the audit.
- j. SAS No. 58, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 508.71), for the predecessor auditor to obtain representation letters from management of the former client and from the successor auditor before reissuing (or consenting to the reissue of) a report previously issued on the financial statements of a prior period.
- k. SAS No. 51, *Reporting on Financial Statements Prepared for Use in Other Countries* (AICPA, *Professional Standards*, vol. 1, AU sec. 534.02), to obtain written representations from management regarding the purpose and uses of financial statements prepared in conformity with the accounting principles of another country.
- l. SAS No. 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance* (AICPA, *Professional Standards*, vol. 1, AU sec. 801.23), to document the oral communications to management and the audit committee or others with equivalent authority and responsibility when the auditor becomes aware during a GAAS audit that the entity is subject to an audit requirement that may not be encompassed in the terms of the engagement.

Spell out unless you wish to add the acronym after the phrase's appearance in para. 3-a, page 8.

APPENDIX B

PROPOSED AMENDMENTS TO STATEMENTS ON AUDITING STANDARDS AND STATEMENT ON STANDARDS FOR ATTESTATION ENGAGEMENTS

PROPOSED AMENDMENT TO SAS NO. 22, *PLANNING AND SUPERVISION* (AICPA, *Professional Standards*, vol. 1, AU sec. 311)

1. The proposed SAS, *Audit Documentation*, requires audit documentation to include a written audit program and incorporates all other guidance that is currently in paragraph 5 of SAS No. 22; therefore, the guidance in paragraph 5 of SAS No. 22 is superseded and consequently deleted as follows:

~~5. In planning the audit, the auditor should consider the nature, extent, and timing of work to be performed and should prepare a written audit program (or set of written audit programs) for every audit. The audit program should set forth in reasonable detail the audit procedures that the auditor believes are necessary to accomplish the objectives of the audit. The form of the audit program and the extent of its detail will vary with the circumstances. In developing the program, the auditor should be guided by the results of the planning considerations and procedures. As the audit progresses, changed conditions may make it necessary to modify planned audit procedures.~~

2. All subsequent paragraphs in SAS No. 22 will be renumbered.

PROPOSED AMENDMENT TO SAS NO. 47, *Audit Risk and Materiality in Conducting an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 312)

3. This proposed amendment adds a requirement to SAS No. 47 to document the nature and effect of misstatements that the auditor aggregates as well as the auditor's conclusion as to whether the aggregated misstatements cause the financial statements to be materially misstated. The proposed amendment adds the following paragraph to SAS No. 47:

40. The auditor should document the nature and effect of aggregated misstatements. The auditor also should document his or her conclusion as to whether the aggregated misstatements cause the financial statements to be materially misstated.

4. Paragraphs 40 and 41 of SAS No. 47 will be renumbered as paragraphs 41 and 42, respectively, as a result of the paragraph added by this proposed amendment.

PROPOSED AMENDMENT TO SAS NO. 56, *ANALYTICAL PROCEDURES* (AICPA, *Professional Standards*, vol. 1, AU sec. 329)

5. The following proposed amendment adds a documentation requirement to SAS No. 56. The new section and paragraph are the following:

Documentation of Substantive Analytical Procedures

22. When an analytical procedure is used as the principal substantive test of a significant financial statement assertion, the auditor should document all of the following—

- a. The expectation and how it was developed
- b. Results of the comparison of the expectation to the recorded amounts or ratios developed from recorded amounts
- c. Any additional auditing procedures performed in response to significant unexpected differences arising from the analytical procedure and the results of such additional procedures

6. Paragraphs 22 and 23 of SAS No. 56 will be renumbered as 23 and 24, respectively, to reflect the paragraph added as a result of this proposed amendment.

PROPOSED AMENDMENT TO SAS NO. 59, THE AUDITOR'S CONSIDERATION OF AN ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN (AICPA, Professional Standards, vol. 1, AU sec. 341)

7. The following proposed amendment adds a requirement to SAS No. 59 for the auditor to document the conditions or events that led him or her to believe that there is substantial doubt about the entity's ability to continue as a going concern; the work performed in connection with the auditor's evaluation of management's plans; the auditor's conclusion as to whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time; and the consideration and effect of that conclusion on the financial statements, disclosures, and audit report. The new section and paragraph are the following:

use semicolons since one elem in the series has internal commas

Documentation

17. As stated in paragraph 3 of this Statement, the auditor considers whether the results of the auditing procedures performed in planning, gathering evidential matter relative to the various audit objectives, and completing the audit identify conditions and events that, when considered in the aggregate, indicate there could be substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. If, after considering the identified conditions and events in the aggregate, the auditor believes there is substantial doubt about the ability of the entity to continue as a going concern for a reasonable period of time, he or she follows the guidance in paragraphs 7 through 16. In connection with that guidance, the auditor should document all of the following:

- a. The conditions or events that led him or her to believe that there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.
- b. The elements of management's plans that the auditor considered to be particularly significant to overcoming the adverse effects of the conditions or events.
- c. The auditing procedures performed and evidence obtained to evaluate the significant elements of management's plans.
- d. The auditor's conclusion as to whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. If there is substantial doubt, the auditor also should document the possible effects of the conditions or events on the financial statements and the adequacy of the related disclosures. If substantial doubt is alleviated, the

auditor also should document the conclusion as to the need for disclosure of the principal conditions and events that initially caused him or her to believe there was substantial doubt.

- e. The auditor's conclusion as to whether he or she should include an explanatory paragraph in the audit report to reflect the conclusion that there is substantial doubt. If disclosures with respect to an entity's ability to continue as a going concern are inadequate, the auditor also should document the conclusion as to whether to qualify the report for the resultant departure from generally accepted accounting principles.

8. Paragraph 17 of SAS No. 59 will be renumbered as paragraph 18 to reflect the paragraph added as a result of this proposed amendment.

**PROPOSED AMENDMENT TO SSAE NO. 10, ATTESTATION STANDARDS:
REVISION AND RECODIFICATION (AICPA, Professional Standards, vol. 1, AT
secs. 101-701)**

9. The proposed amendment to SSAE No. 10 reflects the concepts and terminology used in the proposed SAS. Thus, the attestation standards will appropriately mirror the documentation guidance in the SASs. The proposed amendment is as follows (boldface italics denotes new language; strikethrough denotes deletion):

CHAPTER 1, PARAGRAPHS 1.100-1.104

WORKING PAPERS ATTEST DOCUMENTATION²⁰

1.100 The practitioner should prepare and maintain ~~working papers~~ **attest documentation**, ~~the form and content of which should be designed to meet the circumstances of a particular in connection with an engagement under the attestation standards; such working papers should be appropriate to the circumstances and the practitioner's needs on the engagement to which they apply.~~ **The information contained in attest documentation constitutes the principal record of the work that the practitioner has performed and the conclusions that he or she has reached.** ²⁰¹ ~~Although~~ **The quantity, type, and content of working papers attest documentation are matters of the practitioner's professional judgment.** ~~will vary with the circumstances.~~

OBJECTIVES OF ATTEST DOCUMENTATION

1.101 **Attest documentation serves mainly to²²**

- a. **Provide the principal support for the practitioner's report, including the representation regarding observance of the standards of field work, which is implicit in the reference in the report to attestation standards.**

²⁰ **Attest documentation also may be referred to as working papers.**

²⁰¹ **There is no intention to imply that the practitioner would be precluded from supporting his or her report by other means in addition to working papers attest documentation.**

²² **Additionally, the practitioner should be aware that inspection procedures may be used to evaluate the extent of a firm's compliance with its quality control policies and procedures and that review of attest documentation is an inspection procedure (see paragraphs 1.16-1.18).**

To be consistent with the proposed SAS on page 8, this footnote could be moved to the end of para. 1.101 a.

Shown as two words
in para. 1.101a., page 16.

b. **Aid the practitioner in the conduct and supervision of the attest engagement.**

1.102 Attest documentation they ordinarily should **be sufficient to show** indicate that standards of fieldwork have been observed as follows:

- a. The work was adequately planned and supervised.
- b. Sufficient evidence was obtained to provide a reasonable basis for the conclusion that is expressed in the practitioner's report.

1.1043 ~~Working papers~~ **Attest documentation is the principal** ~~are records kept by the practitioner of the work performed, the information obtained, and the pertinent conclusions reached by the practitioner in the engagement. Examples of working papers attest documentation are work programs, analyses, memoranda, letters of confirmation and representation, abstracts or copies of the entity's documents, and schedules or commentaries prepared or obtained by the practitioner. Attest documentation Working papers also may be in the paper form, electronic form of data stored on tapes, films, or other media.~~

1.1024 ~~Working papers~~ **Attest documentation** ^{applicable} ~~is~~ the property of the practitioner, and some states recognize this right of ownership in their statutes or regulations that designate the practitioner as the owner of the working papers. ^{for} ~~The practitioner should retain attest documentation for a period of time sufficient to meet the needs of his or her practice and to satisfy any pertinent legal or regulatory requirements of records retention. The practitioner also should adopt reasonable procedures to prevent unauthorized access to attest documentation. The practitioner's rights of ownership, however, are subject to ethical limitations relating to the confidential relationship with the client.~~²⁴

Changed to
agree with
para. 12,
page 11.

1.105 The practitioner has an ethical, and in some situations a legal, obligation to maintain the confidentiality of client information.²³ Because attest documentation often contains confidential client information, the practitioner should adopt reasonable procedures to maintain the confidentiality of that information.

1.1036 Certain ~~of the practitioner's working papers~~ ^{the} **attest documentation** may sometimes serve as a useful reference source for his or her client, but ~~the working papers attest documentation~~ should not be regarded as a part of, or a substitute for, the client's records.

Changed to
agree with
para. 14,
page 11.

1.104 ~~The practitioner should adopt reasonable procedures for safe custody of his or her working papers and should retain them for a period of time sufficient to meet the needs of his or her practice and to satisfy any pertinent legal requirements of records retention.~~

²⁴ See the Attest Interpretation, "Providing Access to or Photocopies of Working Papers to a Regulator" (AICPA, Professional Standards, vol. 1, AT sec. 101.56-59).

²³ Also, see Rule 301, Confidential Client Information (AICPA, Professional Standards, vol. 2, ET sec. 30), of the AICPA's Code of Professional Conduct.

10. Paragraphs 1.105 through 1.111 in Chapter 1 of SSAE No. 10 will be renumbered as paragraphs 1.107 through 1.113 to reflect paragraphs added and deleted as a result of this proposed amendment.

11. Given this proposed amendment expanding the documentation guidance in Chapter 1 of SSAE No. 10, most of the guidance in paragraphs 2.27 through 2.30 and 3.17 and 3.32 of SSAE No. 10 is no longer considered necessary. Therefore, this proposed amendment also amends those paragraphs as follows and renumbers all subsequent remaining paragraphs:

CHAPTER 2, PARAGRAPHS 2.27–2.30:

Working Papers

~~2.27 The practitioner should prepare and maintain working papers in connection with an agreed-upon procedures engagement under the attestation standards; such working papers should be appropriate to the circumstances and the practitioner's needs on the engagement to which they apply.⁸ Although the quantity, type, and content of working papers vary with the circumstances, ordinarily they should indicate that—~~

- ~~a. The work was adequately planned and supervised.~~
- ~~b. Evidential matter was obtained to provide a reasonable basis for the finding or findings expressed in the practitioner's report.~~

~~2.28 Working papers are the property of the practitioner, and some states have statutes or regulations that designate the practitioner as the owner of the working papers. The practitioner's rights of ownership, however, are subject to ethical limitations relating to confidentiality.⁹~~

~~2.29 Certain of the practitioner's working papers may sometimes serve as a useful reference source for his or her client, but the working papers should not be regarded as a part of or a substitute for the client's records.~~

~~2.30 The practitioner should adopt reasonable procedures for safe custody of his or her working papers and should retain them for a period of time sufficient to meet the needs of his or her practice and satisfy any pertinent legal requirements of records retention.~~

⁸There is no intention of implying that the practitioner would be precluded from supporting his or her report by other means in addition to the working papers.

⁹See the Attest Interpretation "Providing Access to or Photocopies of Working Papers to a Regulator (AICPA, *Professional Standards*, vol. 1, AT sec. 101.56, 50) ———

CHAPTER 3, PARAGRAPHS 3.17 AND 3.32:

Working Papers

~~3.17 Although it is not possible to specify the form or content of the working papers that a practitioner should prepare in connection with a compilation of prospective financial statements because of the different circumstances of individual engagements, the practitioner's working papers ordinarily should indicate that—~~

- ~~a. The work was adequately planned and supervised.~~
- ~~b. The required compilation procedures were performed as a basis for the compilation report.~~

Working Papers

Attest Documentation

~~3.32 Chapter 1 sets forth the documentation requirements for attest engagements (see paragraphs 1.101–1.106). In addition to those requirements, attest documentation relating to an examination of prospective financial statements ordinarily should indicate that the process by which the entity develops its prospective financial statements was considered in determining the scope of the examination. The practitioner's working papers in connection with his or her examination of prospective financial statements should be appropriate to the circumstances and the practitioner's needs on the engagement to which they apply. Although the~~

~~quantity, type, and content of working papers vary with the circumstances, they ordinarily should indicate that—~~

- ~~a. The work was adequately planned and supervised.~~
- ~~b. The process by which the entity develops its prospective financial statements was considered in determining the scope of the examination.~~
- ~~c. Sufficient evidence was obtained to provide a reasonable basis for the practitioner's report.~~

August 29, 2001

Ms. Gretchen Fischbach
Audit and Attest Standards
File 1861
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Fischbach:

We are pleased to submit our comments on the Proposed Statement on Auditing Standards, *Audit Documentation*. We support issuance of this standard, subject to the following comments.

Deleted Material

We note that the requirement in AU sec. 339.05 that the audit documentation “should be sufficient to show that the accounting records agree or reconcile with the financial statements or other information being reported on” has not been retained in the current proposal. We believe that this requirement should be carried forward until such time as it is included elsewhere in professional standards. This could be included in a separate paragraph following proposed paragraph 11.

Objectives of Audit Documentation

We believe that the information contained in paragraph 4 can be conveyed without creating an apparent imperative for the auditor. We suggest that the sentence be revised to read, “Also, review of audit documentation is one of the inspection procedures that may be used to evaluate the extent of a firm’s compliance with its quality control policies and procedures.”

Content of Audit Documentation

We suggest that the first sentence of paragraph 6 be revised to delete the word “written” in connection with audit programs, since that may connote paper documents.

Ms. Gretchen Fischbach

August 29, 2001

It is not clear what would constitute "relevant knowledge" on the part of the reviewer referred to in paragraph 8. That term could be clarified, via a footnote, by referring to knowledge of auditing practices and knowledge of the entity's industry, as examples.

Furthermore, we do not believe it is necessary to specifically refer to the peer review process in footnote 4 to paragraph 8, since audit documentation sufficient to meet the firm's inspection program should be sufficient for other reviews such as a peer review as well. Furthermore, we find the last sentence of that footnote confusing and unnecessary, and suggest that it be deleted.

We believe that paragraph 10, as proposed, sets too much of an absolute requirement, with no room for inadvertent or minor exceptions. Therefore, we suggest that the word "generally" be inserted after the word "documentation." It also is not clear when it would be "appropriate" to include abstracts or copies of documents, and we suggest that the phrase "where appropriate" be replaced with "if the auditor deems it appropriate."

We do not believe that paragraph 11 is intended to require documentation of all conclusions reached on significant audit findings or issues, but only the final conclusions. Therefore, we suggest adding the word "final" before "conclusions" in the first sentence. (Also, editorially, the word "that" should be deleted from the second subsection (b).)

Ownership and Confidentiality of Audit Documentation

We suggest that the guidance on retention of audit documentation in the second sentence of paragraph 12 be augmented with the following footnote: "If audit documentation is prepared electronically, the auditor (or his or her firm) should ensure that the electronic audit documentation is capable of being accessed throughout the retention period." This suggestion is based on a proposal that we understand the General Accounting Office is developing in connection with a revision of the Yellow Book.

Analytical Procedures

We agree with the concerns of others that the new requirements proposed to be included in SAS No. 56 may be excessive. In particular, we believe that the documentation of "the

Ms. Gretchen Fischbach

August 29, 2001

expectation and how it was developed” may be difficult for practitioners to understand, and that in many cases the expectation is apparent from the documentation of the work performed. Therefore, we suggest that part a. of this proposed paragraph be revised to read, “The expectation and factors considered in its development, where that expectation is not otherwise readily determinable from the documentation of the work performed.”

Very truly yours,

/s/ PricewaterhouseCoopers LLP

Rec'd 8/29/01

August 24, 2001

Ms. Gretchen Fischbach, Technical Manager
Audit and Attest Standards, File 1861
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1211 Avenue of the Americas
New York, New York 10036-8775

Proposed Statement on Auditing Standards (SAS)—Comment Letter
Audit Documentation (To Supersede Statement on
Auditing Standards No. 41, Working Papers)

Dear Ms. Fischbach:

We are pleased to submit this comment letter to the Auditing Standards Board in support of the issuance of the Proposed SAS *Audit Documentation*. The environment in which we audit has changed significantly since 1967, when SAS No. 41, *Working Papers*, was issued. We agree that the profession needs an updated standard.

We believe the guidance in the Proposed SAS will enhance the consistency of audit documentation and allow firms and peer reviewers to better judge the quality of engagement performance. We base this belief on our experiences with our audits, as the Proposed SAS is generally consistent with our existing firm guidance. Furthermore, the Proposed SAS addresses the POB Panel on Audit Effectiveness recommendations to the ASB on working papers and documentation.

The appendix to this letter includes suggestions for the Board's consideration which we believe will further improve the exposure draft.

We would be pleased to discuss our comments with members of the Auditing Standards Board or its staff.

Sincerely,



Attachment

Reference on Exposure Draft	Comment
Page 9, paragraph 8, footnote 5	<p>Given the linkage between this standard and the Quality Control Standards, we believe that the term “relevant knowledge” should be further clarified as extending to discussions with the engagement team.</p> <p>We suggest adding the following to the end of footnote 5: “ ...and, as a result, should not limit his or her activities to the review of audit documentation but also should inquire of the engagement team regarding the work performed and conclusions reached.”</p> <p>Additionally, footnote 5 lacks any reference to the procedures performed and evidence obtained to understand internal control or test controls. In order to avoid confusion or the inference that this requirement only applies to evidence associated with substantive procedures, we recommend explicitly including evidence obtained in understanding or testing controls in the description of evidential matter in footnote 5.</p>
Page 10, paragraph 9	<p>We believe that the spirit of the Board’s intended documentation requirements would be better captured if the fourth bullet point of paragraph 9 were clarified as follows: “Nature, and <u>extent and resolution</u> of exceptions identified.”</p>
Page 10, paragraph 9, footnote 6	<p>Taken by itself, this footnote could be interpreted as requiring the auditor be responsible for client record retention in order to satisfy this SAS. This would be inconsistent with paragraph 14 and inconsistent with what we believe was the Board’s intent. We suggest expanding this footnote to elaborate on the context in which the auditor should consider retrievability of records and documents, and explicitly linking this consideration with its impact on the nature and extent of documentation.</p>
Page 10, paragraph 10	<p>The documentation requirement described in paragraph 10 is closely linked to the considerations</p>

Reference on Exposure Draft

Comment

in paragraph 9. However, because of the paragraph separation, that linkage is less clear.

We suggest that the link would be much clearer if paragraph 10 were incorporated as the last sentence of paragraph 9 rather than included in the standard as a separate paragraph.

Further, we believe the requirement of paragraph 10 could be misread to be inconsistent with the ED's introductory statement that "...The quantity, type, and content of audit documentation are matters of professional judgment" and with the Panel on Audit Effectiveness' Report and Recommendations, which states, when discussing documentation, "...Standards need to be reasonable in that they should not force auditors to adhere to rules that do not take into account the myriad of circumstances that may exist on audits." We believe that paragraph 10 should be modified to clarify this need for judgment by modifying the sentence to read "...the audit documentation generally should include an identification..."

AU339.05 currently states that the workpapers vary with the circumstances "but they should be sufficient to show that the accounting records agree or reconcile with the financial statements or other information reported on..." This requirement has not been similarly included in the Proposed SAS.

We believe that this is an important requirement, not repeated elsewhere in the professional standards. We suggest that this requirement be retained, and added to the Proposed SAS.

We believe that Appendix A effectively highlights important documentation guidance contained in other SASs. However, we suggest explicitly clarifying whether this list is meant to be all

Reference on Exposure Draft

Comment

inclusive. Designating the list as less than all inclusive would relieve the Board of the need to vigilantly and constantly update this list.



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August 27, 2001

Ms. Gretchen Fischbach
Audit and Attest Standards, File 1861
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Fischbach:

Re: Audit Documentation

We welcome the opportunity to provide our comments on the Exposure Draft of The Proposed Statement On Auditing Standards And Statement On Standards for Attestation Engagements, "*Audit Documentation*," (the "ED").

Although we generally support updating the framework in SAS No. 41, "Working Papers," we are not in support of specific documentation requirements which do not improve the overall effectiveness of the audit process but which do add unnecessary steps to the audit. In particular, we are concerned that in an effort to more clearly define the overall framework of audit documentation requirements, the ED unintentionally limits the auditor's ability to exercise professional judgment in determining the nature and extent of audit procedures and documentation appropriate to comply with professional standards.

Accordingly, certain provisions of the ED should be revised and others should be eliminated. A discussion of our comments on six items of particular concern related to the ED follows. Attached in Appendix A are additional comments that are also provided for your consideration.

If you have any questions regarding our response or wish to discuss further any matters addressed herein, please contact Craig Crawford at (212) 909-5536 or Tom Ray at (212) 909-5580.

Very Truly Yours,

KPMG LLP



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is
a member of KPMG International, a Swiss association.

Item 1--Paragraph 9--“the need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed”

The last bullet in paragraph 9 of the ED, which states, “the need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed,” is both confusing and unclear, and should be eliminated. We believe the intent of providing clear documentation of the nature, extent and results of auditing procedures performed is adequately expressed in paragraph 8 of the ED. Accordingly, we recommend removal of this bullet from paragraph 9 of the ED.

Item 2--Paragraph 10--“include an identification of the items tested”

The principle expressed in the ED is that audit documentation should “(a) enable a reviewer with relevant knowledge and experience to understand from the information contained therein the nature, timing, extent, and results of auditing procedures performed, and the evidence obtained, and (b) indicate the engagement team member(s) who performed and reviewed the work” (paragraph 8). However, if applied literally to all aspects of an audit, we believe it may not be possible to comply with the standard set forth in paragraph 10 (in plain English, a “not documented, not done” notion).

In the ordinary course of any audit, the auditor inspects numerous documents while gathering corroborating support related to inquiries of management, analytical reviews, review of key performance indicators, etc., as well as in the identification and update of an understanding of internal control. In these instances, a detailed description and identification of specific documents reviewed is both burdensome and unnecessary, and would be a psychological deterrent to the auditor in deciding to perform the procedures in the first place. Thus, we believe paragraph 10, which adds the requirement to “include an identification of the items tested” (as defined in footnote 7), creates a standard for inspection of documents that is too broad and must be revised. The requirement to document items addressed in paragraph 10 of the ED should be directed towards items of significance.

Item 3--Paragraph 10 --abstracts or document copies be included in audit documentation

Paragraph 10 of the ED includes a requirement that, where appropriate, abstracts or document copies be included in audit documentation. We do not believe that a provision requiring the inclusion of such documents adds to the effectiveness of the audit documentation framework addressed in this ED. In addition, an emphasis on retention of copies of items seems to be contrary to the issues addressed in SAS 94, *"The Effect of Information Technology on the Auditor's Consideration of Internal Control in a Financial Statement Audit,"* which identifies examples where evidential matter may be available only in electronic form. While we understand the language in paragraph 10 includes the phrase, "where appropriate," thereby allowing the auditor some judgment in this area, we believe this portion of paragraph 10 related to inclusion of documents is unnecessary and should be removed.

Item 4--Paragraph 11-- "other financial reporting matters"

We believe the phrase, "c) other financial reporting matters," in the first bullet of paragraph 11, is ambiguous and unnecessary. The aforementioned item provides no guidance to the auditor, and we recommend that such language be removed.

Item 5--Paragraph 11-- "significant difficulty in applying auditing procedures the auditor considers necessary"

We believe the third bullet of paragraph 11, which states that significant audit findings or issues include those where the auditor has experienced "significant difficulty in applying auditing procedures the auditor considers necessary," is both unclear and unnecessary. Further, we are not able to discern the purpose of this proposed requirement. If the requirement relates to an auditor's obligation to communicate to the audit committee significant difficulties encountered in performing the audit, as required by SAS No. 61, the ED should make that point clear. If this concept is retained in the ED, the language should be revised to clarify the intent. Nevertheless, we believe that SAS No. 61 is sufficiently clear as to its requirements and we recommend that the third bullet of paragraph 11 be removed.

Item 6--Footnote 4--“engagement team”

We are concerned that a rather generic reference to the “engagement team” in footnote 4 of the ED may need additional clarification due to varying definitions of the term in practice. For example, the rules and related interpretations promulgated by the Securities and Exchange Commission (the “SEC”) define an engagement team in Section 210.2-01 of Regulation S-X to include “all partners, principals, shareholders, and professional employees participating in an audit, review, or attestation engagement of an audit client, including those conducting concurring or second partner reviews and all persons who consult with others on the engagement team during the audit, review, or attestation engagement regarding technical or industry-specific issues, transactions, or events.” We do not believe that the ED intended to include all persons who consult in an audit as it relates to the discussion in footnote 4. As such, we recommend that footnote 4 be clarified to specifically include the persons considered to be in an “engagement team” for purposes of this document.

* * * * *

Appendix A

The following are recommendations for improvement of the ED for consideration.

- We believe the intent in footnote 2 of the ED which contains the phrase, “other means in addition to audit documentation,” is unclear and requires further discussion.
- We believe the intent in footnote 6 of the ED which contains the phrase, “consider the retrievability of entity records and documents when determining the nature and extent of documentation,” is unclear and requires further discussion.
- The reference in footnote 8 of the ED, “ET sec. 30” should be changed to ET sec. 301.
- In paragraph 11, second bullet, we believe that the word “planned” should be inserted before “auditing procedures” so that it reads, “(b) that planned auditing procedures need to be significantly modified.”

* * * * *



COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

HARVEY C. ECKERT
DEPUTY SECRETARY FOR COMPTROLLER OPERATIONS
OFFICE OF THE BUDGET

August 28, 2001

Gretchen Fishbach
Audit and Attest Standards, File 1861
AICPA
1211 Avenue of Americas
New York, NY 10036-8775

Dear Ms. Fishbach:

We have reviewed the Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements *Audit Documentation* and offer the following for consideration:

We suggest a requirement be added to the "Content of Audit Documentation" section of the proposed Statement on Auditing Standards for an auditor to record the date when audit documentation is prepared or reviewed. We believe this is significant information and should be required.

In Footnote #2 of the proposed audit standard and Footnote #21 of the amended SSAE No. 10, we suggest examples be provided to illustrate what is meant by "other means". Since audit documentation is the principal and commonly expected evidence to support the auditor's opinion, we believe the AICPA should define what might be used as secondary sources.

We have no other comments on the proposed changes. If you have any questions, please call Michael P. Brennan, Acting Director of the Bureau of Audits, at 717-783-0114.

Sincerely,

A handwritten signature in black ink, appearing to read "Harvey C. Eckert".

Harvey C. Eckert

cc: Michael P. Brennan
Comptrollers/Directors



National State Auditors Association

September 4, 2001

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Gretchen Fischbach
Audit and Attest Standards, File 1861
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1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Fischbach:

On behalf of the National State Auditors Association (NSAA), we appreciate the opportunity to respond to the exposure draft (ED) of the proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements entitled, *Audit Documentation*.

We generally support the proposed standard and amendments included in the exposure draft. The increased specificity regarding audit documentation, while providing a framework to exercise professional judgment in determining the nature and extent of audit documentation, will be helpful. The proposed standard establishes minimum levels of acceptable documentation, which should provide for more uniform evidence of audit work among practitioners. We are pleased to see how closely the proposed standard parallels *Government Auditing Standards*, particularly in paragraph 8.

While we generally support the ED, we do have some concern with footnote 2 as outlined below. We have also identified in an attachment to this letter various other comments/suggestions for improvement.

Footnote 2 states, "...there is no intention to imply that the auditor would be precluded from supporting his or her report by other means in addition to audit documentation." We believe that the intended meaning is that while the primary support for the auditor's report would always be audit documentation, there may be other factors, which considered in addition to the audit documentation, would support the auditor's report. However, shouldn't these "other means" or factors that serve to support the auditor's report also be included in the audit documentation? Although this footnote has been brought forward from the current standards, we suggest that the Board clarify how the auditor might support his or her report by "other means," perhaps with an example(s). For consistency, a similar clarification would be needed in the proposed attestation standards (footnote 21, page 16).

We appreciate the efforts of the AICPA and the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kinney Poynter or Sherri Rowland of NSAA at (859) 276-1147 or me at (334) 242-9200.

Sincerely,

Ronald L. Jones
President, NSAA

National State Auditors Association
AICPA ED, *Audit Documentation*

Paragraph	Comment
Paragraph 2	We suggest adding a statement that the auditor must comply with other audit documentation requirements when other standards apply.
Paragraph 6	The last sentence in this paragraph states, “as the audit progresses, changed conditions may make it necessary to modify auditing procedures from those set forth in the audit program.” The proposed SAS is silent on the extent of documentation, if any, that would be expected when this occurs. Perhaps this sentence could read, “At a minimum, this paragraph should require documentation regarding the changed conditions and the basis for expecting the modified auditing procedures to meet the audit objectives.”
Paragraph 8 Part a. Footnote 4	<p>We suggest adding “...and conclusions reached.” after “... evidence obtained.” in this paragraph.</p> <p>Also, the term reviewer, as defined in footnote 4, may not include all parties that review working papers. We believe there are instances where other reviewers from outside the audit firm should be able to understand the documentation. For example, auditors who wish to rely on the work of other auditors may find it necessary to review the other firm’s audit documentation. In addition, subsequent auditors may find it necessary to review the work of a predecessor auditor. Therefore, we suggest that footnote 4 specifically include the phrase “and other experienced auditors from outside the firm such as successor or regulatory auditors.”</p>
Paragraph 8 Part b.	<p>It was not clear to us at what level the audit documentation should “indicate the engagement team member(s) who performed and reviewed the work.” Does the standard expect:</p> <ul style="list-style-type: none"> • Documentation on each working paper? • Documentation of who made major decisions or reached conclusions? • Or, more generally, identifying who worked on the audit and who reviewed the work? <p>This should be clarified in the final standard.</p>
Paragraph 9 Footnote 6	It is unclear whether this footnote is intended to caution the auditor about electronic documents, paper documents with short retention periods, or both. We suggest that the Board clarify what the auditor needs to consider in footnote 6, perhaps by including specific examples.
Paragraph 14	The inclusion of this paragraph is awkward because the discussion does not appear to be directly related to the subheading <i>Ownership and Confidentiality of Audit Documentation</i> . If this point needs to be included in the proposed standard, perhaps it would make more sense to make it a footnote to paragraph 12.
Paragraph 15	Because this proposed Statement is intended to assist the auditor by providing an updated framework within which to use his or her professional judgment, we believe that earlier application should be encouraged, not merely permitted.
Appendix A	We suggest that this appendix also reference SAS 22, paragraph 14 (AU §311.14), which requires the auditor to document the final resolution of differences of opinion among audit staff.



September 4, 2001

Gretchen Fischbach
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775
VIA Internet: gfischbach@aicpa.org

RE: File 1861 "Audit Documentation"

Dear Ms. Fischbach:

The Accounting and Auditing Standards Committee of the Maryland Association of Certified Public Accountants has reviewed and discussed the above mentioned exposure draft. Our committee contains a diverse range of academics, practitioners and industry members and we were able to discuss this matter from a variety of different perspectives. We apologize for the lateness of the response and hope that you will consider our comments.

Members of the committee felt that work programs could serve as documentation of procedures performed. Paragraph 1 indicates that audit documentation constitutes the principal record of the work that the auditor has done and the conclusions reached. The committee felt that signing off on an audit step was appropriate documentation of work performed in some cases. Therefore, we believe it should be added to the examples in paragraph 7 of audit documentation.

Footnote 2 and footnote 5 (by reference) indicate that an auditor could support his or her report by other means in addition to audit documentation. The committee questioned this statement and suggests that footnote 2 be clarified.

We appreciate the opportunity to respond to this exposure draft.

Respectfully submitted,

James L. Layton, CPA, Chairman
Accounting and Auditing Committee

September 12, 2001

Gretchen Fischbach
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas, 6th Floor
New York, N.Y. 10036-8775

File Reference 1861

Dear Ms. Fischbach:

We appreciate the opportunity to comment on the proposed Statement on Auditing Standards, *Audit Documentation*. We support the ASB as it attempts to provide an updated documentation framework for practitioners performing audits. We generally believe that the proposed standard will result in a better identification and documentation of significant risks and the auditor's response to those identified risks.

We are also in agreement with the objectives of audit documentation as stated in paragraph 3 of the document. However, we are concerned with certain items in the document and the possible interpretations and implications they pose. We believe those items, as detailed below; provide others with the opportunity to inappropriately second guess the auditor's judgment. Others may prove overly burdensome.

Because of the significance of these items, we do not support the proposed Standard in its present form. Our comments and concerns are presented below.

Paragraph 8

The phrase "from the information contained therein" undermines footnote 2 which indicates "There is no intention to imply that the auditor would be precluded from supporting his or her report by means in addition to audit documentation." Footnote 5 refers to footnote 2 but only with respect to "the evidence obtained" and not with respect to the nature, timing, extent, and results of auditing procedures performed. We recommend that the phrase "from the information contained therein" be deleted. We also recommend that the last sentence of footnote 5 be changed to refer to the nature, timing, extent, and results of auditing procedures performed and the evidence obtained, instead of just the evidence obtained.

Paragraph 9, Footnote 6

AU 326.18 appropriately states that the auditor should consider the time during which evidence exists or is available in designing the nature, timing, and extent of audit procedures. This concept is far different from footnote 6 which suggests the auditor may want to consider the retrievability of entity records and documents when determining the nature and extent of documentation. We believe this footnote could create an expectation that the auditor be looked upon as a repository of client records. Further, third parties could use this footnote against auditors if client records do not exist at some point after the audit is completed.

We recommend this footnote be deleted. No auditing Standard should infer that the auditor has a responsibility to maintain client records, whether they exist in the future or not.

Paragraph 10 and Footnote 7

This paragraph goes well beyond the objectives of audit documentation set forth in paragraph 3 and the documentation requirements of paragraph 8. It seems to us that the only reason to define documentation with such specificity is to set up a reperformance standard. We do not believe reperformance is an appropriate objective of audit documentation.

Footnote 7 requires, for the last two examples, that the auditor include a copy of the source or identifying characteristics of the items selected when the source exists for only a short time. To us, this removes any pretense that the proposed Standard be considered anything other than a reperformance standard. In addition to our prior comments on the subject, we believe this to be an overly burdensome requirement for the auditor. In addition, this imposes a responsibility on the auditor to determine the client's retention policies for all documents.

We recommend this paragraph and its footnote be deleted.

Paragraph 4 and Footnote 3

Paragraph 4 and footnote 3 appear to be unnecessary to include in this auditing standard. They do not address the objectives stated in paragraph 3. Therefore, we recommend this paragraph and the related footnote be removed.

Gretchen Fischbach
September 12, 2001
Page 3



We would be pleased to discuss any of our comments with you further. Please direct any such comments to Keith O. Newton, National Director of Auditing, at (214) 561-2316.

Very truly yours,

A handwritten signature in cursive script that reads "Grant Thornton LLP".

Grant Thornton LLP

**Deloitte
& Touche**

September 7, 2001

Ms. Gretchen Fischbach
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Fischbach:

Re: **File 1861**

We are pleased to submit our comments on the Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements, *Audit Documentation*, (the "Exposure Draft").

We fully support amending existing professional Standards with a goal of improving audit quality through enhanced audit documentation; and we agree with the decision to undertake an update of the guidance in Statement on Auditing Standards ("SAS") No. 41, *Working Papers*. However, we have significant reservations about certain requirements of the proposed Standard because it appears to introduce objectives of audit documentation that serve to fundamentally alter the performance requirements for an audit conducted in conformity with generally accepted auditing standards. Our specific concerns and recommendations are described in the attachment to this letter. The attachment also contains several editorial comment for your consideration. Additions and deletions are in bold face italics and strikethroughs, respectively.

Please contact Robert C. Steiner at (203) 761-3438, if you wish to discuss our comments.

Sincerely,

A stylized, handwritten signature in cursive script that reads "Deloitte & Touche". The signature is written in dark ink and is positioned above the word "Attachment".

Attachment

COMMENTS

Overall Comments

Objectives of Audit Documentation

We support the objectives of audit documentation as set forth in paragraph 3 of the Exposure Draft. However, we have significant concerns that the Exposure Draft, through the requirements set forth in paragraphs 4 (including footnote 3), 8, and 10 set forth other competing objectives, the implications of which may not be fully recognized or understood by practitioners.

First, the purpose of paragraph 4 and footnote 3 is unclear. We are concerned that the language in paragraph 4 and footnote 3 could be interpreted to treat noncompliance with a firm's quality control policies as a departure from GAAS. The references to the "inspection procedures" in paragraph 4 and to the Statement on Quality Control Standards in footnote 3 seem to imply that, in addition to providing the principal support for the auditor's report, an important objective of audit documentation is to demonstrate compliance with a firm's quality control policies and procedures. Such an objective would have the effect of equating noncompliance with an element of a firm's quality control policies and procedures to noncompliance with generally accepted auditing standards ("GAAS") without regard to whether a GAAS audit had been performed or the extent of compliance with other elements of the firm's system of quality control. For example, a firm may adopt, as part of its quality control procedures, documentation requirements that *exceed* the audit documentation objectives set forth in paragraph 3. In a particular audit engagement the audit documentation may comply fully with the requirements of paragraph 3 (i.e., comply with GAAS) but may fall short of achieving the firm's higher internally-adopted audit documentation requirements. In such a situation, we would agree that audit documentation did not comply with the firm's quality control policies, but we believe that such noncompliance should not be considered a departure from GAAS.

Also, we have serious concerns that a literal reading paragraphs 8 and 10 results in a defacto requirement that audit documentation should meet a reperformance standard. The Auditing Standards Board ("ASB"), in an open meeting, debated and rejected, by a wide margin, a reperformance standard of audit documentation. We are not aware of any evidence that a reperformance standard will improve audit quality. Rather, the adoption of such a documentation standard may only increase the ability of third parties to second guess, with the benefit of hindsight, the auditor's judgment about matters to be documented and the nature and extent of that documentation.

We believe paragraph 4 and footnote 3 should be deleted to eliminate the confusion we believe they create concerning the objectives of audit documentation.

Content of Audit Documentation

We believe the discussion in paragraphs 5 through 7, 9 and 11 generally flow from the objectives set forth in paragraph 3 and provides workable guidance to the auditor in determining the nature and extent of documentation of audit procedures performed, evidence obtained and conclusions reached. However, we have significant reservations about certain elements of paragraphs 9 and 11 that are discussed below.

Paragraph 8

We have two concerns with Paragraph 8. First, the requirements in paragraph 8 could be read as establishing an objective of audit documentation that extends beyond the requirements of paragraph 3. As noted above, the purpose of paragraph 4 is unclear. In addition, a requirement that “audit documentation should (a) enable a reviewer ... to understand *from the information contained therein (emphasis added)* the nature, timing, extent and results ...” appears to conflict with the statement in footnote 2 that the auditor would not be precluded from supporting his or her report by other means in addition to audit documentation.

The intent of paragraph 8 may be to strengthen a practitioner’s quality control policies and procedures by improving the effectiveness of internal reviews (including a concurring review) and external (i.e., peer) reviews of a practitioner’s audit practice. We support such an objective. Accordingly, we recommend that the Quality Control Standards (QC section 20) be amended to adopt the requirements of paragraph 8 and that paragraph 8 be deleted from the proposed Standard.

Paragraph 9

We are concerned that paragraph 9 could be read as establishing a requirement that the auditor document his or her consideration of *each* of the factors set forth therein in determining the nature and extent of the audit documentation to be prepared for *each* audit procedure performed in *each* audit area. Such a requirement would be burdensome and would likely result in “boiler plate” documentation that would not add to audit quality. We recommend the proposed Standard be modified to focus on the nature and extent of significant audit findings or issues, as follows.

9. In determining the nature and extent of the documentation ~~for a particular audit area or audit procedures,~~ **of significant audit findings or issues (see paragraph 11),** the auditor should consider the following factors: ⁶

Also, footnote 6 states “the auditor may want to consider the retrieveability of entity records and documents when determining the nature and extent of documentation.” The practical effect of the footnote is to require the auditor to include copies of client records or documents in the audit documentation if there is a possibility that such records or documents may be needed in the future but may not be available from the client. We also note the ASB’s acknowledgement, in SAS No. 94 that “audit evidence [may be] available only in electronic form” (Statements on Auditing Standards No. 94, “The Effect of Information Technology on the Auditor’s Consideration of Internal Control in a Financial Statement Audit,” paragraph 67). We recommend footnote 6 be deleted.

Paragraph 10

We believe the requirement set forth in paragraph 10 to include in the audit documentation an identification of the items tested, in certain circumstances, without consideration of the significance of the assertion being tested, the quality of the evidence expected to be obtained, or the other audit evidence developed in performing corollary audit procedures will not improve the quality of audits being performed. Rather, such a requirement (i) appears to focus on the *quantity* rather than the *quality* of the audit documentation, (ii) is inconsistent with the principle stated in paragraph 1 of the Exposure Draft that “the quantity, type and content of audit documentation are matters of the auditor’s professional judgment” and (iii) in fact serves to undermine the ability of the auditor to exercise judgment. We also note that the ASB has separate projects underway dealing with the audit process, risk assessment, (including fraud risk

factors) and most importantly the “Test of Assertions” project that is expected to provide guidance in linking the auditor’s assessment of inherent, control and fraud risk with the nature, extent and timing of substantive audit procedures. We strongly encourage the ASB to defer establishing audit documentation requirements concerning substantive tests of assertions to that specific ASB agenda project and to delete paragraph 10 and footnote 7 from the proposed Standard.

If the ASB retains paragraph 10, we strongly recommend that the last two sentences of footnote 7 be deleted. The requirement to include copies of source documents or other items selected that may not be capable of subsequent regeneration serves only to reinforce reperformance—an objective of audit documentation specifically rejected by the ASB.

Paragraph 11

Paragraph 11 provides guidance to the auditor in defining significant audit findings or issues that should be documented. The matters described in the first two bullets are self explanatory. However, no frame of reference is provided to aid in identifying what is intended to be addressed by “Significant difficulty in applying auditing procedures the auditor considers necessary.” Does the ASB intend that matters of the nature described in paragraph 16 of SAS No. 61 (as amended), “Communication with Audit Committees” (AU 380.16) be considered significant audit issues? If so, a footnote reference to SAS No. 61 is needed. If the ASB intends for other matters to be documented, examples of the matters contemplated should be added. We question the purpose that would be served by such documentation and believe that if such requirement is retained, that purpose be explained in the final Standard to assist auditors in identifying those other matters for documentation. Alternatively, we recommend that the third bullet point of paragraph 11 be deleted.

Other Comments

Paragraph 1

We recommend the first sentence of paragraph 1 be revised as follows:

1. The auditor should prepare and maintain audit documentation, the form and content of which should be designed to meet the circumstances of **a the particular audit** engagement.

Paragraph 5

We recommend that the first sentence of paragraph 5 be revised to be consistent with paragraph 3a, as follows:

5. The audit documentation should be sufficient to show that **the** standards of ~~fieldwork~~ **field work** have been observed as follows:

Paragraph 12

We recommend that the second sentence of paragraph 12 be modified as follows to be consistent with the proposed revisions to SSAE No. 10, paragraph 1.104:

12. Audit documentation is the property of the auditor, and some states recognize this right of ownership in their statutes. The auditor should retain audit documentation for a

period of time sufficient to meet the needs of his or her practice and to satisfy any applicable legal or regulatory requirements for records retention. The auditor also should adopt reasonable procedures to prevent unauthorized access to the audit documentation.

PROPOSED AMENDMENT TO SAS NO. 22, *PLANNING AND SUPERVISION* (AU SEC. 311)

The Exposure Draft proposes deleting paragraph 5 of AU sec. 311 because of the requirement in the Standard to include a written audit program. We question the appropriateness of eliminating a reference to the *preparation* of a written audit program when such action is the resulting by-product of the planning process. Accordingly, we believe that the ASB should consider placing a paragraph after AU sec. 311.10, possibly using the first sentence of existing AU sec. 311.05 and providing a cross-reference to the new Standard to bridge the gap. If such a paragraph is not added, AU sec. 311.01 would then have to be revised to eliminate the reference to such section providing guidance with respect to preparing an audit program. In addition, we noted that AU sec. 311.14 contains documentation requirements that are not identified in Appendix A of the proposed Standard.

PROPOSED AMENDMENT TO SAS NO. 59, *THE AUDITOR'S CONSIDERATION OF AN ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN* (AU SEC. 341)

We recommend the following changes to the proposed amendment to SAS No. 59 to clarify the guidance and to conform subparagraphs d. and e. with the language of paragraphs 11, 12 and 14 of SAS No. 59:

7. The following proposed amendment adds a requirement to SAS No. 59 for the auditor to document the conditions or events that led him or her to believe that there is substantial doubt about the entity's ability to continue as a going concern, the work performed in connection with the auditor's evaluation of management's plans, the auditor's conclusion as to whether ~~there is~~ substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time **is alleviated or remains**, and the consideration and effect of that conclusion on the financial statements, disclosures, and **the auditor's** report. The new section and paragraph are the following:

Documentation

17. As stated in paragraph 3 of this Statement, the auditor considers whether the results of the auditing procedures performed in planning, gathering evidential matter relative to the various audit objectives, and completing the audit identify conditions and events that, when considered in the aggregate, indicate there could be substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. If, after considering the identified conditions and events in the aggregate, the auditor believes there is substantial doubt about the ability of the entity to continue as a going concern for a reasonable period of time, he or she follows the guidance in paragraphs 7 through 16, ~~in connection with that guidance and the auditor~~ should document all of the following:

- a.
- b.
- c.
- d. The auditor's conclusion as to whether ~~there is~~ substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time **is alleviated or remains**. If ~~there is~~ substantial doubt **remains** the auditor also should document the

possible effects of the conditions or events on the financial statements and the adequacy of the related disclosures. If substantial doubt is alleviated, the auditor also should document the conclusion as to the need for disclosure of the principal conditions and events that initially caused him or her to believe there was substantial doubt.

- e. The auditor's conclusion as to whether he or she should include an explanatory paragraph in the ~~audit~~ **auditor's** report to reflect the conclusion that ~~there is~~ substantial doubt **remains**. If disclosures with respect to an entity's ability to continue as a going concern are inadequate, the auditor also should document the conclusion as to whether to **express a qualified or adverse opinion** ~~quality the~~ ~~report~~ for the resultant departure from generally accepted accounting principles.

PROPOSED AMENDMENT TO SSAE NO. 10, ATTESTATION STANDARDS: REVISION AND RECODIFICATION (AICPA, Professional Standards, vol. 1, AT secs. 11-701)

Objectives of Attest Documentation

The Exposure Draft alerts the practitioner to another potential objective of attest documentation (i.e., its use in connection with quality control compliance inspection procedures) via footnote 22, while the amendment to SAS No. 41 elevates that "objective" to a paragraph in the body of the proposed Standard. These differences in presentation further confuse the objectives of documentation and for the reasons set forth above under the heading "Objectives of Audit Documentation," we also recommend deletion of the proposed footnote 22.

Chapter 1, Paragraphs 1.100-1.104

Although paragraphs 1.100-1.104 are intended to track the proposed auditing standard, we noted several inconsistencies and have marked our proposed changes on the enclosed copies of pages 16 and 17 of the Exposure Draft.

The Exposure Draft also proposes the deletion of existing footnote 21 to (new) paragraph 1.104 which refers the practitioner to the Attest Interpretation, *Providing Access or Photocopies of Working Papers to a Regulator* (AT sec. 101.56-.59). The reasons for deleting the reference to this Interpretation are unclear. We recommend that the ASB either restore footnote 21 or insert of another reference directing the practitioner to the guidance provided in that Interpretation.

Chapter 2, Paragraphs 2.27-2.30

With the implementation of the proposed changes to Chapter 1, paragraphs 1.101-1.104, we understand and agree with the deletion of existing paragraphs 2.27-2.30. However, we believe a cross reference to (new) paragraphs 1.101-1.106 is needed similar to that proposed for Chapter 3, as follows:

Attest Documentation

2.27 Chapter 1 sets forth the documentation requirements for attest engagements (see paragraphs 1.101-1.106).

Additionally, we believe that the reference in footnote 9 to the attest interpretation, which is proposed for deletion, be added as a footnote to (new) paragraph 1.104.

Chapter 3, Paragraphs 3.17 and 3.32

The Exposure Draft proposes to eliminate paragraph 3.17, presumably on the basis that the general guidance in paragraph 1.101-1.106 addresses the subject matter of paragraph 3.17. We note, however, that the general guidance in 1.101-1.106 does not address the matter noted in paragraph 3.17 b (performance of compilation procedures). Accordingly, we recommend that (new) paragraph 3.32 be revised as follows:

Attest Documentation

3.32 Chapter 1 sets forth the documentation requirements for attest engagements (see paragraphs 1.101-1.106). In addition to those requirements, attest documentation relating to:

- **a compilation of prospective financial statements ordinarily should indicate that the required compilation procedures were performed as a basis for the compilation report.**
- **an examination of prospective financial statements ordinarily should indicate that the process by which the entity develops its prospective financial statements was considered in determining the scope of the examination.**

auditor also should document the conclusion as to the need for disclosure of the principal conditions and events that initially caused him or her to believe there was substantial doubt.

- e. The auditor's conclusion as to whether he or she should include an explanatory paragraph in the audit report to reflect the conclusion that there is substantial doubt. If disclosures with respect to an entity's ability to continue as a going concern are inadequate, the auditor also should document the conclusion as to whether to qualify the report for the resultant departure from generally accepted accounting principles.

8. Paragraph 17 of SAS No. 59 will be renumbered as paragraph 18 to reflect the paragraph added as a result of this proposed amendment.

**PROPOSED AMENDMENT TO SSAE NO. 10, ATTESTATION STANDARDS:
REVISION AND RECODIFICATION (AICPA, Professional Standards, vol. 1, AT
secs. 101-701)**

9. The proposed amendment to SSAE No. 10 reflects the concepts and terminology used in the proposed SAS. Thus, the attestation standards will appropriately mirror the documentation guidance in the SASS. The proposed amendment is as follows (boldface italics denotes new language; strikethrough denotes deletion):

CHAPTER 1, PARAGRAPHS 1.100-1.104

WORKING PAPERS~~ATTEST DOCUMENTATION~~²⁰

1.100 The practitioner should prepare and maintain ~~working papers~~*attest documentation* *the form and content of which should be designed to meet the circumstances of a particular* ~~in connection with an engagement, under the attestation standards; such working papers~~ *attest* ~~should be appropriate to the circumstances and the practitioner's needs on the engagement to which they apply. The information contained in attest documentation constitutes the principal record of the work that the practitioner has performed and the conclusions that he or she has reached.~~ ²⁰¹ ~~Although~~ *The quantity, type, and content of working papers attest documentation are matters of the practitioner's professional judgment. will vary with the circumstances,*

OBJECTIVES OF ATTEST DOCUMENTATION

1.101 *Attest documentation serves mainly to*²²

- a. *Provide the principal support for the practitioner's report, including the representation regarding observance of the standards of field work, which is implicit in the reference in the report to attestation standards.*

²⁰ Attest documentation also may be referred to as working papers.

²⁰¹ There is no intention to imply that the practitioner would be precluded from supporting his or her report by other means in addition to working papers~~attest documentation~~.

²² Additionally, the practitioner should be aware that inspection procedures may be used to evaluate the extent of a firm's compliance with its quality control policies and procedures and that review of attest documentation is an inspection procedure (see paragraphs 1.16-1.18).

S/B two words

- b. Aid the practitioner in the conduct and supervision of the attest engagement.

1.102 ~~Attest documentation they ordinarily should be sufficient to show indicate that standards of fieldwork have been observed as follows:~~

- a. The work was adequately planned and supervised.

- b. Sufficient evidence was obtained to provide a reasonable basis for the conclusion that is expressed in the practitioner's report.

attest procedures applied

1.1043 ~~Working papers Attest documentation is the principal~~ ~~are records kept by the practitioner of the work performed, the information obtained, and the pertinent conclusions reached by the practitioner in the engagement. Examples of working papers attest documentation are work programs, analyses, memoranda, letters of confirmation and representation, abstracts or copies of the entity's documents, and schedules or commentaries prepared or obtained by the practitioner. Attest documentation Working papers also may be in the paper form, electronic form of data stored on tapes, films, or other media.~~

1.1024 ~~Working papers Attest documentation is~~ ~~are the property of the practitioner, and some states recognize this right of ownership in their~~ ~~have statutes or regulations that designate the practitioner as the owner of the working papers. The practitioner should retain attest documentation for a period of time sufficient to meet the needs of his or her practice and to satisfy any pertinent legal or regulatory requirements of records retention. The practitioner also should adopt reasonable procedures to prevent unauthorized access to attest documentation. The practitioner's rights of ownership, however, are subject to ethical limitations relating to the confidential relationship with the clients.~~ ²¹

for the

1.105 The practitioner has an ethical, and in some situations a legal, obligation to maintain the confidentiality of client information. ~~Because attest documentation often contains confidential client information, the practitioner should adopt reasonable procedures to maintain the confidentiality of that information.~~

or information of the responsible party.

1.1036 ~~Certain of the practitioner's working papers attest documentation may sometimes serve as a useful reference source for his or her client, but the working papers attest documentation it should not be regarded as a part of, or a substitute for, the client's records.~~

the

1.104 ~~The practitioner should adopt reasonable procedures for safe custody of his or her working papers and should retain them for a period of time sufficient to meet the needs of his or her practice and to satisfy any pertinent legal requirements of records retention.~~

²¹ See the Attest Interpretation, "Providing Access to or Photocopies of Working Papers to a Regulator" (AICPA, Professional Standards, vol. 1, AT sec. 101.56-58).

²² Also, see Rule 301, Confidential Client Information (AICPA, Professional Standards, vol. 2, ET sec. 39), of the AICPA's Code of Professional Conduct.

10. Paragraphs 1.105 through 1.111 in Chapter 1 of SSAE No. 10 will be renumbered as paragraphs 1.107 through 1.113 to reflect paragraphs added and deleted as a result of this proposed amendment.

11. Given this proposed amendment expanding the documentation guidance in Chapter 1 of SSAE No. 10, most of the guidance in paragraphs 2.27 through 2.30 and 3.17 and 3.32 of SSAE No. 10 is no longer considered necessary. Therefore, this proposed amendment also amends those paragraphs as follows and renumbers all subsequent remaining paragraphs:

or deletes



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THOMAS H. McTAVISH, C.P.A.
AUDITOR GENERAL

August 31, 2001

Gretchen Fischbach
Audit and Attest Standards, File 1861
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Fischbach:

We have reviewed the AICPA Exposure Draft (ED) of the proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements, entitled *Audit Documentation*, and we agree in principle with the proposed guidance. We do, however, have the following five comments for consideration by the Auditing Standards Board (Board) in developing the final Statement.

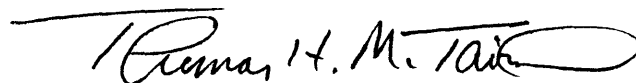
1. Footnote 1, on Page 8 of the ED, states that "*Audit documentation* also may be referred to as *working papers*." Because the Board specifically replaced the term *working papers* with the term *audit documentation* not only to recognize changes in the auditing environment, but also to provide an updated framework for auditors, we suggest that the Board revise Footnote 1 slightly to read, "*Audit documentation* was previously referred to as *working papers*." For consistency, a similar revision would be needed in the proposed attestation standards (Footnote 20 on Page 16).
2. Footnote 2, also on Page 8 of the ED, states that "...there is no intention to imply that the auditor would be precluded from supporting his or her report by other means in addition to audit documentation." Although this footnote has been brought forward from the current standards, we suggest that the Board clarify how the auditor might support his or her report "by other means," perhaps with an example(s). For consistency, a similar clarification would be needed in the proposed attestation standards (Footnote 21 on Page 16).
3. Footnote 6, on Page 10 of the ED, cautions that "The auditor also may want to consider the retrievability of entity records and documents when determining the nature and extent of documentation." It is unclear whether this footnote is intended to caution the auditor about electronic documents, paper documents with short retention periods, or both. We suggest that the Board clarify what the auditor needs to consider in Footnote 6, perhaps by including specific examples.

Gretchen Fischbach
Page 2
August 31, 2001

4. Paragraph 15, on Page 11 of the ED, states that "This Statement is effective for audits of financial statements for periods ending on or after June 15, 2002. Earlier application is permitted." Because this proposed Statement is intended to assist the auditor by providing an updated framework within which to use his or her professional judgment, we believe that earlier application should be encouraged, not merely permitted. Therefore, we suggest that the Board revise the second sentence of Paragraph 15 to read "Earlier application is encouraged."
5. The first sentence in Paragraph 7, on Page 15 of the ED, explains the proposed amendment to SAS No. 59 by specifically listing the four items that the auditor is required to document. Even with proper punctuation, this sentence may be confusing to the reader because it is more than six lines in length. If this sentence is retained in the final document, we suggest that the Board further clarify this explanation by numbering the four items, to read: "The following...amendment adds a requirement to SAS No. 59 for the auditor to document (1) the conditions or events that led him or her to believe that there is substantial doubt about the entity's ability to continue as a going concern, (2) the work performed in connection with the auditor's evaluation of management's plans, (3) the auditor's conclusion as to whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, and (4) the consideration and effect of that conclusion on the financial statements, disclosures, and audit report."

We appreciate this opportunity to comment on the Exposure Draft. Should you have any questions, or desire further details on our comments, please contact me or Jon A. Wise, C.P.A., Director of Professional Practice.

Sincerely,

A handwritten signature in dark ink, appearing to read "Thomas H. McTavish", with a stylized flourish at the end.

Thomas H. McTavish, C.P.A.
Auditor General

Robert Loe & Associates

Certified Public Accountants

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DATE Sept. 23, 2001

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This faxed document should be 1 pages, including this page.

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AICPA PCPS

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Your email does not work.

*Chair, Peer Review
Committee for State
of Washington*

Re: Expanding the Scope-Exposure Draft Requiring
Still More Documentation

I am a member of PCPS and a peer reviewer. One of the biggest problems I see as a reviewer is that firm's keep too much documentation.

If the ASB moves too quickly on this, they could just create more problems.

We need standards that address the problem of over-documentation. The new standard should tell practitioners what documentation is not required. For example it should not be necessary to document the audit procedures that don't apply.

How can I get on the list for these exposure drafts? I haven't received a copy of the one mentioned in the bulletin.

TKS

Robert Loe
Robert Loe, CPA



September 27, 2001

Ms. Gretchen Fischbach
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Ref: File 1861

Dear Ms. Fischbach:

The Committee on Audit and Assurance Services of the Illinois CPA Society ("Committee") is pleased to comment on the proposed Statement on Auditing Standards (SAS) and Statement on Standards for Attestation Engagements, *Audit Documentation* (ED). The following comments and considerations represent the collective views of the members of the Committee and not the individual views of the members or of the organizations with which they are affiliated. The organization and operating procedures of the Committee are reflected in Appendix A to this letter.

Our views on the ED reflect the diverse representation of the Committee. Membership comments range from near total support for the proposed statement to those who do not support the ED in its current form. In the middle of that range, certain members have comments they believe will add to the utility of the ultimate standard. However, we believe that the diversity of commentary provides evidence that certain elements of the ED should be reconsidered in order to receive widespread support.

The Committee agrees with the efforts of the Auditing Standards Board to revise the current standards relative to audit documentation. We support the belief that audit quality would be improved if a standard for documentation ultimately influenced an auditors' response to identified risks. The objectives of audit documentation set forth in paragraph 3 of the ED are consistent with what we believe to be the foundation for such documentation. In fact, some consideration should be given to enhancing the premise of footnote 2 to paragraph 3 by embedding it in the body of the ultimate standard.

Significant Issues

Certain members of the Committee are most troubled by the content of paragraphs 8 and 10 which seems to imply that the workpapers allow for a level of reperformance by others. These members do not support the concept that a reperformance standard enhances audit quality. Paragraph 10 goes well beyond the objectives of audit documentation set forth in paragraph 3 and the documentation requirements of paragraph 8. Certain members feel that the only reason to define documentation with such specificity is to set up a reperformance standard. Coupled with the last two examples in footnote 7, which requires that the auditor include a copy of the source or identifying characteristics of the items selected when the source exists for only a short time, these members believe that any pretense that the proposed standard is anything other than a

reperformance standard has been removed. While members of the committee may disagree on whether this interpretation of the proposed standard is correct, substantially all members decidedly believe that reperformance is not an appropriate objective of audit documentation.

Additionally, with respect to paragraph 8, the phrase "from the information contained therein" undermines footnote 2, which indicates "There is no intention to imply that the auditor would be precluded from supporting his or her report by means in addition to audit documentation." Footnote 5 refers to footnote 2 but only with respect to "the evidence obtained" and not with respect to the nature, timing, extent, and results of auditing procedures performed. We recommend that the phrase "from the information contained therein" be deleted. We also recommend that the last sentence of footnote 5 be changed to make it applicable to understanding the nature, timing, extent, and results of auditing procedures performed and the evidence obtained, instead of just the evidence obtained.

Some members agree that audit documentation should include an identification of items tested, as described in paragraph 10. However, such members agree with the introductory statement that "...The quantity, type, and content of audit documentation are matters of professional judgment." These members would suggest that the requirements to provide specific or selective types of documentation, as set forth in paragraph 10, are not consistent with the need to utilize judgment.

Footnote 6 of paragraph 9 describes that audit documentation should consider the ability of the auditor to retrieve relevant documents. We believe this creates a situation where the auditor would have to be involved with the client's record retention policies and controls in order to satisfy this standard. We suggest deleting this reference.

Other Issues

Paragraph 4 of the ED draws in certain Statements on Quality Control Standards as they relate to the existence and sufficiency of audit documentation. Certain members of the Committee have raised a concern that, by drawing in these other standards, compliance with generally accepted auditing standards would necessarily require full compliance with all of the requirements embodied in the quality control standards.

Many members have expressed concern with the proposed amendment to SAS 56, *Analytical Procedures*. Specifically, the proposed standard requires documentation relative to "...the expectation and how it was developed." These members believe that this would serve to increase the requirement to document an auditors' judgment, which would serve to do nothing more than require the auditor to defend all applications of judgment. While these members believe that judgment should be used in the performance of an audit, they do not believe that the auditor should be required to document all such considerations as part of the audit documentation.

Enhancements or Amplifications

- With respect to the audit program reference in paragraph 6, we suggest deleting the word "written" to accommodate the many forms in which work programs may exist (e.g., electronic). Also in paragraph 6, to the extent that the audit program is modified, reference should be made to updating the program to incorporate those changes.
- Paragraph 9, 2nd bullet point: Insert "auditor" before the word "judgment."
- Footnote 2 to paragraph 3 should be expanded to provide examples of support separate from audit documentation that might be appropriate to support an audit report.

- With respect to footnote 5 of paragraph 8, there is no reference to any evidence obtained in the review of client financial reporting controls. We recommend that this be expanded to include the evidence obtained as part of the understanding and testing of internal controls.
- Paragraph 11 does not specify the manner in which documentation related to "significant" issues should be provided. The Committee is looking for clarification that this could take several forms. Also, several Committee members suggested that "significant" should be further defined in order to assure that practitioners can meet this standard.

Thank you for considering our comments. We look forward to the finalized document.

Sincerely,



Stephen R. Panfil
Chair, Audit and Assurance Services Committee
Illinois CPA Society



William P. Graf
Chair
Comment Letter Subcommittee

Received 10/4/01

ew york state society of
NYSSCPA
certified public accountants
530 fifth avenue, new york, ny 10036-5101
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October 2, 2001

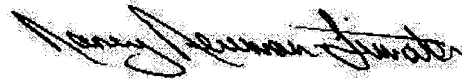
Gretchen Fischbach
Audit and Attest Standards
File 1861
American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775
gfischbach@aicpa.org

Dear Ms. Fischbach:

The New York State Society of Certified Public Accountants, the nation's oldest state accounting association, represents approximately 30,000 CPAs whose audit and attest engagements are affected by the AICPA Auditing Standards Board's (ASB) interpretations and rulings. NYSSCPA thanks ASB for the opportunity to comment on its Exposure Draft on the **Proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements**.

The NYSSCPA Accounting and Auditing Oversight Committee contributed to the attached comments, which were drafted by the Auditing Standards and Procedures Committee. If ASB would like additional discussion with the committee, please contact Auditing Standards and Procedures Committee Chair William M. Stocker III, at (212) 503-8800, or NYSSCPA Staff, James A. Woehlke, at (212) 719-8347.

Sincerely,



Nancy Newman-Limata
President

Attachment



530 fifth avenue, new york, ny 10036-5101
www.nysscpa.org

**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

EXPOSURE DRAFT:

**PROPOSED STATEMENT ON AUDITING STANDARDS AND
STATEMENT ON STANDARDS FOR ATTESTATION AGREEMENTS**

**AUDIT DOCUMENTATION
(TO SUPERSEDE STATEMENT ON AUDITING STANDARDS No. 41,
WORKING PAPERS)**

June 27, 2001

Principal Drafters

**Bruce H. Nearon
Robert N. Waxman**

August 27, 2001

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**NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
AUDITING STANDARDS AND PROCEDURES COMMITTEE'S RESPONSE TO THE
PROPOSED STATEMENT ON AUDITING STANDARDS AND STATEMENT ON
STANDARDS FOR ATTESTATION ENGAGEMENTS
EXPOSURE DRAFT
JUNE 27, 2001**

Our comments on the exposure draft (ED), PROPOSED STATEMENT ON AUDITING STANDARDS AND STATEMENT ON STANDARDS FOR ATTESTATION ENGAGEMENTS, dated June 27, 2001, are organized into one general comment, and specific comments and responses to questions posed in the ED.

General Comment

We suggest a clean-up of the several hundred uses of gender neutral language, i.e., "his or her," "him or her," "he or she" throughout the auditing standards, starting with this document. This language is awkward and the term "auditor" may be easily substituted in each instance (for example, in paragraphs 1, 11, and 12; footnotes 2 and 5; Appendix B, paragraph 7).

Specific Comments

Footnote 1

In that the term "audit documentation" is synonymous with "working papers," AU 722 "Interim Financial Information" should be amended. Paragraphs 21 and 45 of AU 722 should be revised to refer to "review documentation" in place of "working papers" in order to clearly state and emphasize the level of service. Further, paragraph 45, which says "See Section 339, Working Papers, for further guidance concerning working papers," should be revised.

Paragraph 9

We would augment the fourth bullet, thus: "Nature, extent and amounts of exceptions identified, and corrective action taken (if any)."

We are not clear what is meant by "audit area." We suggest that a footnote explanation may be appropriate.

Footnote 6

This should be incorporated directly into paragraph 9 as a separate bullet instead of being consigned to a footnote. We recognize that this implies a change from "may want to consider" to "should consider"

In mentioning "retrievability," should it be assumed that the form of the documentation or evidence (paper, electronic, observation, oral) should also enter into the determination of the nature and extent of the audit documentation.

Paragraph 10

We recommend that third-party confirmations of contractual arrangements (not just balances) be included here and properly identified in the documentation. This paragraph should conform to the third Standard of Field Work, which says: "Sufficient competent evidential matter is to be obtained through inspection, **observation, inquiries** and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit." (Emphasis added) Therefore, evidence that was obtained by observation or inquiries should be unambiguously identified in the audit documentation and included in Footnote 7.

Paragraph 11

The first sentence and/or the first bullet should be revised to avoid using the phrase "matters that are ... significant" in defining "Significant audit findings or issues."

Paragraph 11 has four bullet points for significant audit findings or issues that should be included in the audit documentation. We recommend that the following fifth point be added:

- Documentation of evidence of reportable conditions in internal control discovered while the auditor was obtaining an understanding of internal control, during planning or performing substantive procedures.

In practice, most auditors probably already do this, and its requirement is implied in AU § 325; however some may not, and including it in the standards will emphasize its importance. In addition, the AU § 325 requirements do not apply when the condition was acknowledged in the past by the audit committee (or other appropriate authority). What is potentially lost is how the condition was considered in the auditor's planning; even with control risk assessed at maximum, conditions could affect the design of substantive tests.

Appendix B

Appendix B includes amendments to other SASs affected by the ED. For consistency with the recommended additional bullet point to Paragraph 11, SAS 94 should also be amended to require documentation of evidence of significant weaknesses in internal control discovered while the auditor was obtaining an understanding of internal control, during planning or performing substantive procedures. The auditor should also document the communication of the weakness to management, management's corrective action or response, and a conclusion about the weaknesses affect on audit planing.

Appendix B should also include the following amendments to SAS 82.

- In Paragraph 37, the words "working papers" should be changed to "audit documentation" for consistency.
- Paragraphs 38 through 40 deal with communication of fraud. A paragraph should be added to this section to document the auditor's communication of fraud to management, the audit committee, and others.

October 12, 2001

Gretchen Fischbach
Audit and Attest Standards, File 1861
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Fischbach:

The Auditing Standards Committee (Committee) of the American Accounting Association is pleased to offer comments about the Auditing Standards Board's (Board's) Proposed Statement on Auditing Standards (SAS) and Statement on Standards for Attestation Engagements, *Audit Documentation*. This comment letter reflects the views of the individuals on the Committee and not those of the American Accounting Association.

General Comments

The Committee supports the issuance of the proposed standard. Appendix A of the proposed SAS solidifies what is expected at a minimum regarding documentation. The document helps auditors understand what documentation is required and what documentation is not required. The documentation requirements for analytical procedures, going concern, and materiality are a good start in helping protect auditors against perceptions that they are not conducting thorough and careful audits.¹ For example the Report by the Panel on Audit Effectiveness (Panel, 2000) reminds auditors that analytical procedures should be specific and based on sound expectations. Auditors can more easily justify adherence to the Panel's reminder when their expectations and procedures have been carefully documented according to what is contained in this proposed SAS.

¹ One member of the committee dissents with the majority on how the proposed standard is being applied to amend the documentation requirements in SAS No. 56 and SAS No. 59. His rationale appears at the end of the letter.

We compliment the Board on making the documentation of the auditor's reasoning process more explicit. Paragraph 9 of the exposure draft requires the auditor to consider specific factors in determining the nature and extent of the documentation for a particular audit area or auditing procedure. These considerations are important, especially in areas such as auditing estimates.

Also, we encourage the Board to carefully consider documentation issues when revising existing and developing future SASs, particularly those related to the topics being addressed by the fraud and risk/linkage task forces. While we acknowledge the sensitivities involved in documenting information related to audit engagements (e.g., litigation exposures as described in Rich, Solomon, and Trotman's 1997 paper in *Journal of Accounting Literature*), we view audit documentation as an important aspect of audit quality control. Further, perceptions of audit quality by regulators and users of financial statements are important risks for auditors to manage. Any perception that auditors are not performing sufficient auditing procedures—like that noted by Arthur Levitt in his 1998 Numbers Game speech—could be damaging to the profession. We support any Board actions that help protect the integrity of the audit without imposing unjust cost on auditing firms.

Specific Comment—International Standards on Auditing

The Committee suggests that the Board should consider whether the proposed SAS should include amendments to the SASs that would eliminate the documentation differences between the International Standards on Auditing (ISAs) and the SASs. Appendix B, *Analysis of International Auditing Standards*, in the Codification of Statements on Auditing Standards identifies two ISAs that require documentation that is not required by the SASs. They are ISA 300, *Planning*, and ISA 600, *Using the Work of Another Auditor*.

ISA 300.08 states that the auditor should develop and document an overall audit plan describing the extent scope and conduct of the audit. Although SAS No. 22 (AU311.04), *Planning and Supervision*, states that the auditor may wish to prepare a memorandum setting forth the preliminary audit plan, particularly for large and complex entities, the auditor is not required to do so.

ISA 600.09 states that the principal auditor would obtain written representations regarding the other auditor's compliance with the independence requirements and the accounting, auditing, and reporting requirements. SAS No. 1 (AU 543), *Part of the Audit Performed by Other Independent Auditors*, does not required written representations regarding these matters.

ISA 600.14 states that the principal auditor would document in the audit working papers: the components whose financial information was audit by other auditors, their significance to the financial statements of the entity as a whole, the names of the other auditors, any conclusion reached that individual components are immaterial, the

procedures performed, and the conclusions reached. AU Section 543 does not set forth specific documentation requirements regarding using the work of another auditor.

Specific Comment—Audit Sampling

The committee suggests that SAS No. 39 (AU 350), *Audit Sampling*, should be modified to require documentation of audit sampling. The audit guide, *Audit Sampling*, states:

Although SAS No. 39, SAS No. 41, and this guide do not require specific documentation of audit sampling applications, examples of items that the auditor typically documents for tests of controls include the following:

- A description of the prescribed control being tested.
- The objectives of the sampling application, including its relationship to the assessment of control risk.
- The definition of the population and the sampling unit, including how the auditor considered the completeness of the population.
- The definition of the deviation condition.
- The risk of assessing control risk too low, the tolerable deviation rate, and the expected population deviation rate used in the application.
- The method of sample-size determination.
- A description of how the sampling procedure was performed and a list of the deviations identified in the sample.
- The evaluation of the sample and a summary of the overall conclusion.

The guide contains similar wording for substantive testing. We believe this guidance should be elevated to a SAS because requiring auditors to document these issues will cause them to explicitly consider them.

Specific Comment—GAO Standards

It's not clear whether the exposure draft is consistent with Government Auditing Standards (especially paragraph 4.37). That paragraph requires the auditor to document sufficiently to enable an experienced auditor to examine the same transactions.

Paragraph 10 of the proposed SAS states that in documenting the extent of auditing procedures that involve inspection of documents or confirmation of balances, the audit documentation should include an identification of the items tested and, where appropriate, abstracts or copies of documents such as significant contracts or agreements. Footnote 7 of Paragraph 10 states that the identification of the items tested may be satisfied by indicating the source from which the items were selected and the specific selection criteria. Footnote 7 provides examples. We would prefer a simple standard that says the documentation should include a list of the items tested (without all the examples).

Respectfully submitted,

AAA Auditing Standards Committee

Kay W. Tatum, Chair
Brian Ballou, Vice-Chair
Stephen K. Asare
Karla M. Johnstone
Konrad W. Kubin
Larry E. Rittenberg
Roger Simnett

Dissenting Comment

Stephen K. Asare encourages the Board to carefully consider paragraph 1 of the proposed SAS as it attempts to write documentation standards for specific standards. Paragraph 1 of the proposed amendment appropriately concludes that the quantity, type, and content of the audit documentation are matters of the auditor's professional judgment. But the proposed amendments to SAS No. 56 and SAS No. 59 are too detailed and address matters that are best left to audit guides. For instance, the proposed paragraph 22 of SAS No. 56 sets forth specific documentation requirements on developing expectations for substantive analytical procedures. In his opinion, these detailed documentation requirements are entirely unnecessary. He presents the same arguments for SAS No 59. He also urges the Board not to elevate documentation guidance on sampling applications to a SAS. He strongly believes that documentation details are best left to auditors' judgments and audit guides that can give examples of items to document. He also does not believe the documentation requirements set forth as amendment to SAS No. 56 and SAS No. 59 will help protect auditors against perceptions that they are not conducting thorough and careful audits. Rather, it may encourage auditors not to apply procedures that they should otherwise be applying.



LORENKCS@aol.com

10/24/01 01:23 PM

To: gfischbach@aicpa.org

cc:

Subject: WEDNESDAY

Dear Ms. Fischbach:

Please accept these late comments to the proposed Statement on Auditing Standards related to audit documentation. Note 2 on page 8 - *However, there is no intention to imply that the auditor would be precluded from supporting his or her report by other means in addition to audit documentation* - should be expanded to give examples of what is meant by "other means."

Paragraph 8 should be expanded in two respects. First, the definition of reviewer should be expanded to include third party reviewers not involved in the peer review process. Second, a (c) should be added which would state -- enable a third party reviewer (including someone involved in the peer review process) to determine whether the audit was performed in accordance with generally accepted auditing standards.

I recognize that I am almost two months late in getting these comments to you, but I would greatly appreciate if you would forward them to the committee preparing the proposed SAS.

Sincerely,

Loren Kramer